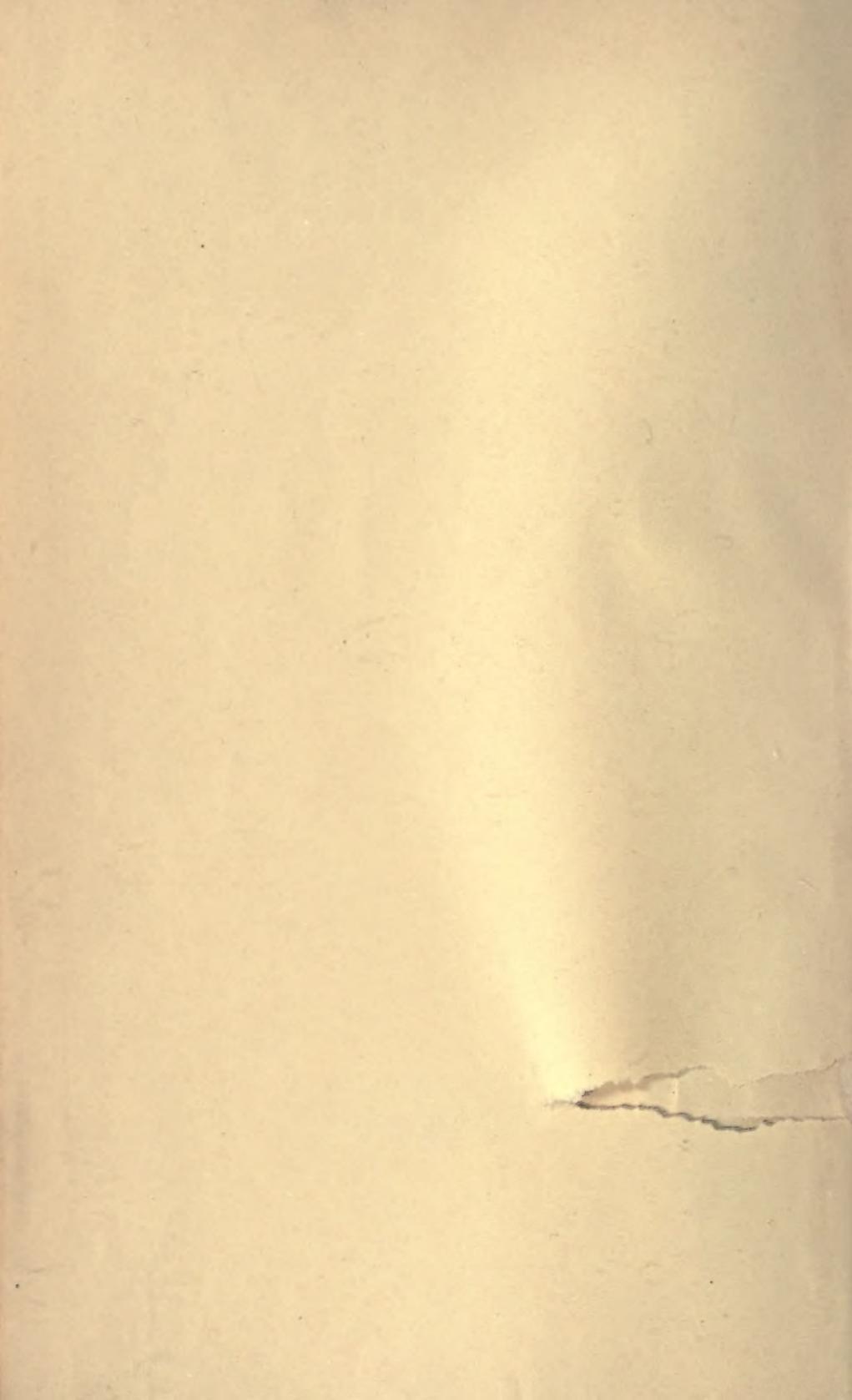


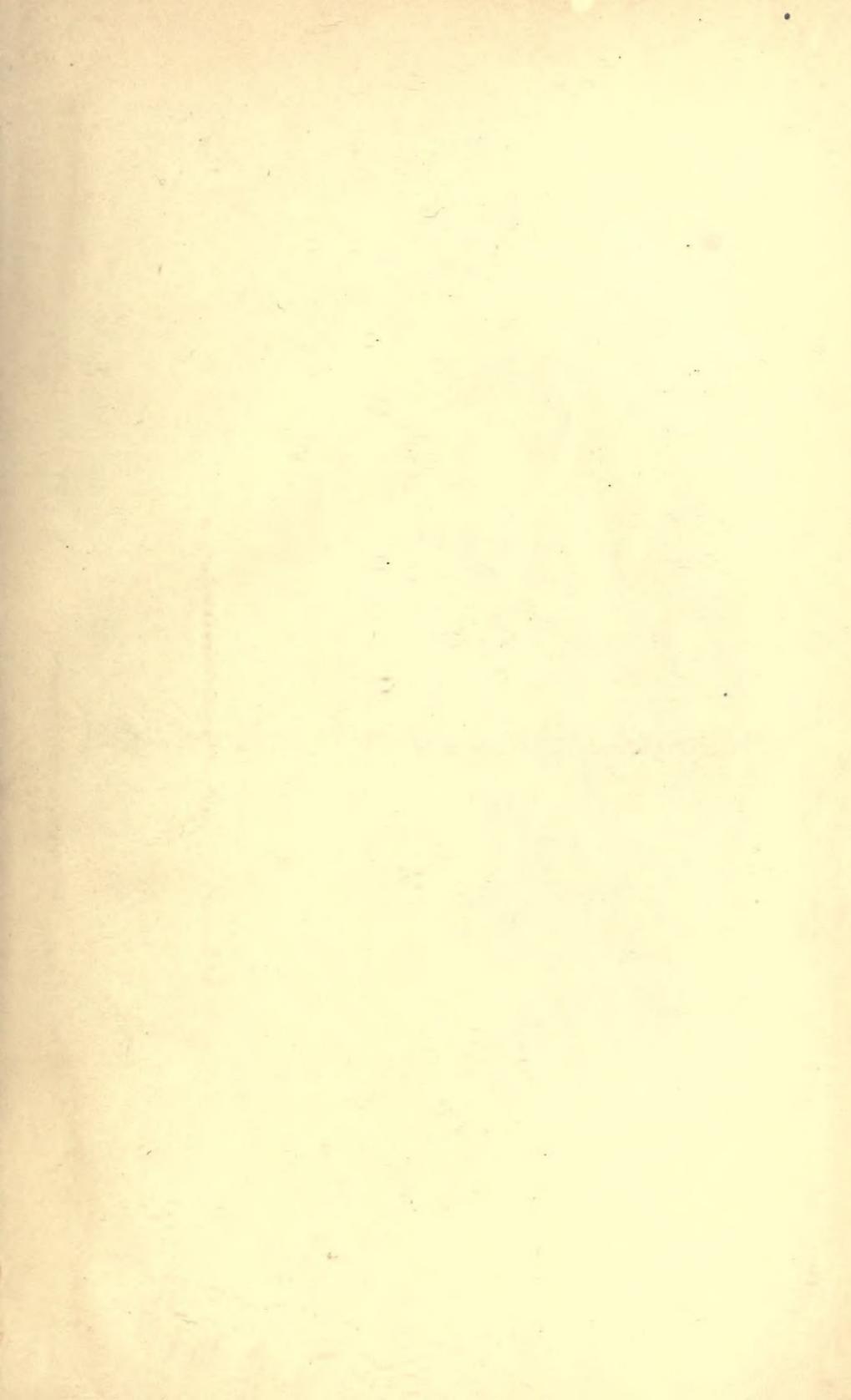


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BOOKKEEPING
FOR
ACCOUNTANT STUDENTS

BY

LAWRENCE R. DICKSEE, M.Com., F.C.A.

(*of the firm of Sellars, Dicksee & Co.*)

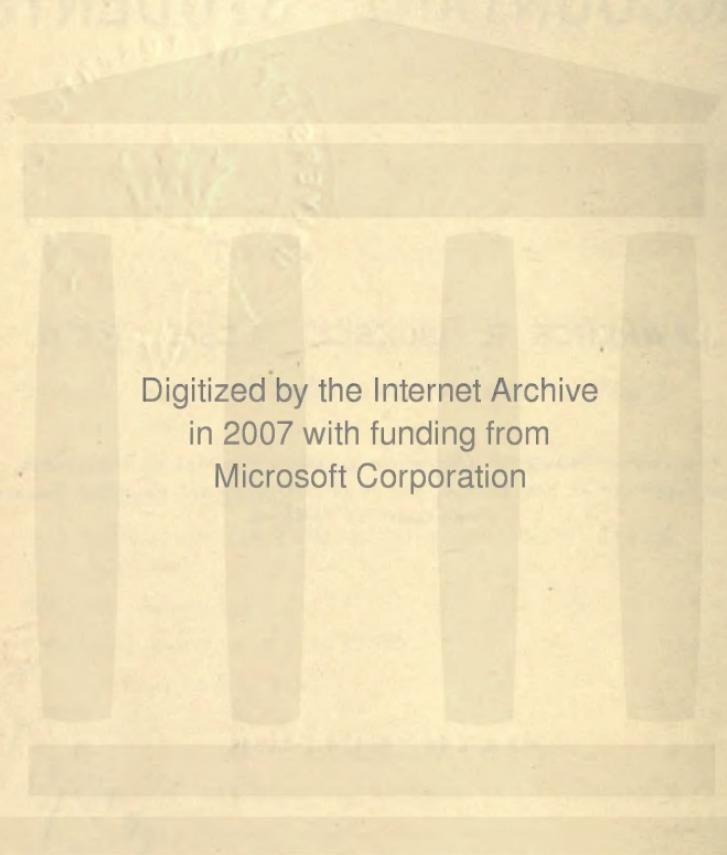
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PREFACE TO FIRST EDITION.

THE extremely unsatisfactory results which, it will be admitted, usually attend instruction in the principles of elementary Bookkeeping afford good grounds for supposing that there is some radical fault in the method of instruction generally adopted. The principle of Bookkeeping may be likened to the principle upon which an arch is constructed, where each stone rests upon every other stone for support, and of which the keystone—which is at the top of all—is the most important and the most distinctive. No one wishing to impart instruction upon the principles upon which an arch is constructed would commence with a detailed exposition upon the properties and characteristics of each separate stone; rather would he first exhibit to the student a model of the completed arch, and then pull it to pieces for the student's edification. In Bookkeeping, however, the mode of instruction usually adopted is to weary the student with a minute description of the various parts before he is even told that they will eventually form one component and

harmonious whole; the immediate consequence being that the minute portion of his attention that is not alienated by the apparent aridity of his subject is exclusively occupied in relatively unimportant matters of detail, and when the course is finished it is found that, while perhaps more or less conversant with the letter of the theory, he has not even so much as learned whether there be a spirit.

The position of such an one may be likened to that of the student of physiology who, while well acquainted with the form of some of the principal bones in the human frame, has not the remotest notion of the relative positions of such bones in the skeleton as a whole. Until the whole can be conceived as a whole, the most minute study of its component parts will be found singularly stale and unprofitable.

In view, therefore, of the necessarily unsatisfactory result of all instruction in the science of Bookkeeping conducted upon the old lines, it is felt that no apology is necessary for the method adopted in the work now placed before the public. It may be added, however, that the Author's system has been found to work well in practice, and to secure for its disciples a thorough knowledge of the theory of Double Entry in a remarkably short space of time.

It is desirable that all the exercises upon each chapter should be thoroughly worked out before the next chapter is commenced, and that each Part should be properly mastered before proceeding to the subsequent Part.

Although the present work is primarily intended for the use of Accountant Students, it will be found equally suitable to those preparing for the Civil Service, Society of Arts, and other similar examinations.

LAWRENCE R. DICKSEE.

14th December 1892.

PREFACE TO SIXTH EDITION.

SINCE the first edition of this work was published, some seventeen years ago, five editions (representing 8,000 copies) have been exhausted; and the fact that each successive edition has been sold out in a shorter space of time than the previous one is, it is thought, sufficient indication that the hopes expressed in the preface to the first edition have been justified.

It has not been thought desirable to make any material alterations in the general scheme of the work, as originally presented, but the opportunity has been taken to embody certain improvements in matters of detail and to correct misprints. Any attempt to make the present volume really exhaustive would have necessitated a great increase in size, and would have entirely altered the original arrangement. The Author has, however, issued a more complete work upon "Advanced Accounting," that has already reached a third edition, to which the reader is referred for information

upon all points too advanced to be included in the scope of the present volume.

It may be added that, in order to meet a wish which has been expressed in several quarters, the Author has published, in a separate form, a series of 100 questions under the title of "Bookkeeping Exercises for Accountant Students," which may be regarded as a supplement to the present work. A skeleton key is appended to these exercises, so that students may see for themselves whether their answers are correct.

LAWRENCE R. DICKSEE.

48 Copthall Avenue, E.C.,

10th March 1909.

I.—INTRODUCTION.

BOOKKEEPING may be defined as the science of correctly recording in books transactions involving the transfer of money or money's worth.

In recording these transactions there are two objects to be aimed at :—

(1) It is necessary that the record be so explicit that, at any subsequent time, the exact nature of the transaction may be readily perceived without the aid of the memory.

(2) It is necessary that the transactions should be so classified that at any time the combined effect of such transactions during any given period, or at any given time, may be readily ascertained.

It is the necessity for combining these two fundamental principles that makes the main difficulty of practical Book-keeping ; the expression “practical” Bookkeeping is used advisedly, for if time and labour were no object to the book-keeper, the difficulty might be got over with comparative ease. As it is, however, it is extremely rare, except in businesses of the simplest kind, to find a set of books perfect upon both

points that do not involve an amount of labour out of all proportion to the result achieved.

In England it is a very general custom for bookkeepers to rely upon Copy Letter Books, Invoices, and other extraneous sources to elucidate transactions which ought to have been made plain to an outsider merely examining the books of account themselves. In fact, many English books on Bookkeeping totally ignore the first of the requisites just named. On the other hand, in France, Italy, and Spain (and also to a great extent Germany), the system usually adopted involves almost twice the labour on the part of the bookkeeper; but, while it minutely records the nature of each individual transaction, it is inferior to the English method in point of classification and in other matters of convenience.

Foreign bookkeepers for the most part appear to labour under the impression that businesses were made for books, and not books for businesses, but surely the latter is the more correct supposition.

The two principles named (viz., the explicit record of each transaction, and a ready classification of such transactions when recorded) are in reality both vital and both equally important, and it is therefore very necessary that the reader should bear them constantly in mind if he wishes to follow the why and the wherefore of a good system of Bookkeeping.

Having now ascertained to a certain extent the nature of the records it is necessary to make, attention may be directed to the things in which the records are made, viz., the Books.

It goes without saying that the same books are not always equally suitable for the record of all kinds of transactions, or, in other words, that different kinds of business each require a different set of books; in fact, it is frequently desirable that businesses of the same kind should have their accounts kept differently, in order to meet some slight variation involved by a different class of trade. But in all cases (whether the books be those of a bank, an insurance office, a chimney-sweep, or a private gentleman) they are kept for the same purpose—the record of transactions involving the transfer of money or money's worth—and consequently vary in matters of detail only, the ruling principle being the same in all.

Books, then, are divisible into two great classes :—

- (1) Books of Account, or Financial Books.
- (2) Memorandum, or Statistical Books.

The first book of account ever used was probably a mere record of transactions entered as they occurred, and consequently in chronological order, being, in fact, little more than a Memorandum Book. A very few moments' consideration

will show that, as soon as these transactions became either very numerous or very varied in their nature, a mere chronological record would be all but useless, and that some method of classification became absolutely necessary.

This being perceived, it became the custom to sort out the various transactions into their several classes, and to re-write them in another book (the Ledger) under separate headings, keeping each class of transaction under its proper heading, and referring to such heading whenever any information was required upon that class of transaction.

It may be considered that Bookkeeping itself dates from this time, for Books of Account, properly so called, hardly existed before this period ; while all that has been done since has been to follow up and improve upon the lines thus indicated, and the complexity of modern Bookkeeping is due to the multiplicity of detail required by the growth of modern commerce, rather than to any radical alteration of the principle of the original design.

The two books named are, in fact, the only Books of Account in use even at the present time : the first, called the JOURNAL, or *daily register* (so called because it contains a record of each day's transactions), in some form or other still retains all its ancient functions, and although in the course of centuries it has been found convenient to divide the book into sections, and call the various parts Sales Book or Day Book,

Invoice Book or Purchase Book, &c., yet, in fact, they are merely so many "Journals"; and to this day in all Continental houses of business, and in many English ones, all transactions are carried through some form of Journal, although subsidiary books are often used to record the fuller details.

The second book named is the **LEDGER**, so called because in that book the entries of all the transactions are *laid* or *stored up*, for future reference. Most businesses have also a Cash Book, but it will save the reader a great deal of confusion at a subsequent period if, at this early stage, he learns to regard the Cash Book as neither more nor less than an account in the Ledger, bound up separately for the sake of convenience.

The Ledger, as already stated, contains a record in classified form of transactions involving the transfer of money or money's worth. Thus, if A. sold John Smith goods to the value of, say, £20, there would be a page in A.'s Ledger headed "John Smith," showing that he was A.'s debtor for £20 on account of goods sold to him. When Smith paid A., say, £10 on account, that £10 used to be subtracted from the

JOHN SMITH.

		£	s	d
1460				
Jan. 1	Goods sold him	20	0	0
20	Cash paid by him	10	0	0
		<hr/>		
		£10	0	0

£20, and the difference showed the amount still owing by Smith to A. It was very soon found, however, that there were two weighty objections to this manner of proceeding : (1) The bookkeeper was always liable to *add* instead of *subtracting*, and *vice versa*, in which case the error would not be specially obvious ; (2) without reading the whole account, it would not appear whether John Smith owed the money to A. or A. owed it to him. To meet this difficulty each Ledger Account was divided into two :—Upon one side were placed the items for which he was A.'s debtor, and upon the other side (the *contra* Account) those items for which he was A.'s creditor, the balance being readily ascertainable at any time by adding up the two sides and striking a balance.

Dr.	JOHN SMITH.	CONTRA.	Cr.
Jan. 1 | £ 500 | To Goods .. .. | £ 20 0 0 | Jan. 20 | £ 1500 | By Cash .. .. | £ 10 0 0			

At first sight the reader may possibly have some little difficulty in seeing how, when Smith owes A. £20, he becomes A.'s creditor upon payment of £10 ; but in Bookkeeping, as in many other things, we must examine each transaction by itself as it arises ; the time to set one off against another being after they have been placed side by side in the Ledger.

Now that the Ledger had been separated into two sides, it became necessary to distinguish in the Journal upon which

side of the Ledger each transaction should appear, and thus two columns soon found their way into the Journal, one for sums to be placed on the Dr. (debtor) side of the Ledger Account, and one for the Cr. (creditor) side.

JOURNAL.

Dr. Cr.

	£ s d	£ s d

By this time it will be perceived that Bookkeeping had already become a matter of some little complexity, and doubtless at that remote period the errors made by the bookkeeper were a source of considerable annoyance and loss; it was therefore but natural that men should begin to see if they could not devise some means by which such errors should become self-evident. Then, doubtless, they asked themselves what was the exact nature of the transactions they recorded in their books, and arrived at the conclusion that the transactions they recorded were—as stated at the outset—*transfers*. Let us ask ourselves, What is a transfer? A transfer is a “conveyance of anything from one person or place to another.” A transfer thus (and consequently the class of transactions with which we deal in Bookkeeping) involves a *twofold act*—if A. pays John Smith £20, he, receiving the cash, is A.’s debtor; but A.’s Cash Account, being so much the poorer, is (so far as that one transaction goes) his creditor. Thus A. is

enabled to record this one transaction on both sides of his Ledger; and by recording all his transactions on both sides of his Ledger, it will readily be seen that at any time, by adding up each side of his Ledger, and comparing the total amount of the Dr. side with the total of the Cr. side, a check is at once obtained; for, if there be a mistake, it is unlikely in the extreme that the two sides will agree.

At first sight, however, the advantage seems to be more than compensated by the extra labour—for certainly it nearly amounts to keeping the books twice over. But notwithstanding this, no subsequent discovery has caused us to abandon the principle of Double Entry thus founded. More than four hundred years have now elapsed since the first treatise on Double Entry Bookkeeping was published, but although many modifications and improvements have been made since then, by means of which the amount of labour involved has been enormously reduced, the fundamental principle of Double Entry has remained unchanged. Indeed, it is only in this country that any serious attempt has been made to lessen the extra labour involved by Double Entry, and—bearing in mind that “the whole is equal to the sum of its parts”—to attempt a form of classification in the Journal by which a vast number of small entries in the Ledger may be obviated.

These preliminary remarks upon books would not be complete without some reference to the second class of books

named, viz., Memorandum, or Statistical Books. These books vary with every class of trade, and are merely used to record details that could not conveniently appear in the Books of Account, or if they do so appear are not in a form suitable for convenient reference.

The Policy Books of an Insurance Office, the Ground Rent Register of a Mortgage Company, and (frequently) the Cost Book of a Contractor are examples of such books. It should, however, be carefully borne in mind that they are not Books of Account, and (from a Bookkeeping point of view) have no value except in so far as they serve to explain entries appearing in the Books of Account that might otherwise be obscure. It may be added that many frauds have remained undetected through want of attention to this most important point.

The object of this chapter being merely to give a general (although necessarily extremely superficial) idea of the whole subject, rather than to consider any one point exhaustively, we will now return to the Ledger—which the reader need hardly be reminded is *the book*—and try and convey a rough idea of the principle upon which a Balance Sheet is prepared.

Up to the present time Accountants have not agreed upon any precise form in which a Balance Sheet shall be drawn up, consequently specimens are to be found in several different forms. This is very confusing to the beginner, and it is not

therefore intended at the present time to further distract the reader with a discussion as to the merits of the various forms in use. It will suffice to explain what a Balance Sheet really is.

A Balance Sheet is a statement showing upon one side the assets of the person or firm in question, and on the other side the liabilities. If the assets exceed the liabilities the surplus is the capital of the person or firm, and is entered on the liabilities' side so that the totals on both sides may agree. On the other hand, should the liabilities exceed the assets, the difference is called a deficiency, or capital overdrawn, and is entered on the assets' side. At first sight this may appear somewhat strange. "If I have a capital of £1,000," the reader says, "how can it appear on the liabilities' side; surely it is an asset?" True, but he must always remember to look upon the business as something quite apart from the person or persons to whom it belongs. The business has a surplus of £1,000, which belongs to its owner; therefore that owner is a creditor of the business for £1,000. It will thus appear that the business makes no distinction between its owner and any other creditor. Scottish readers, whose mercantile law recognises the existence of a firm as something distinct from its individual partners, will doubtless grasp the situation more readily.

Inasmuch as the Ledger contains, in a classified form, a record of all the transactions, it is obvious that, from the

Ledger, we can at any time readily ascertain both the assets and the liabilities of the business. That is to say, the Ledger keeps a continuous record of the amount owing to the business, the amount owing by it, and of the property belonging to it. The excess of the assets over the liabilities is (as already stated) the capital, and if the capital at the end of any period is greater than at the commencement of that period, the difference will be the profit made during that period—assuming, of course, that no fresh capital has been brought in or withdrawn during that period. Similarly, if the capital has become reduced, there will have been a loss.

In taking out a Balance Sheet from the Ledger, however, numerous accounts will be found that represent neither assets nor liabilities, but sources of expense or of income. In this connection the following rules will be found most useful :—

(1) When an item is on the left-hand or Dr. side of the Ledger :

(a) If the amount will eventually be received, it is an asset.

(b) If the amount will not eventually be received, it is a loss.

(2) When an item is on the right-hand or Cr. side of the Ledger :

(a) If the amount will eventually have to be paid, it is a liability.

(b) If the amount will not eventually have to be paid, it is a gain.

This rule never fails; but, of course, the question as to whether an amount will eventually be received or not requires a knowledge of the facts of the particular case for its correct disposal; and, even then, may be a point of much difficulty—in fact, this is one of the difficulties of correctly reporting upon the affairs of any business—for because A. owes B. £100 it does not in the least follow that B. will ever receive his £100 from A. If he does eventually receive it, of course it was one of B.'s assets, but if not, B. must look upon it as a loss.

For theoretical purposes, however, one may readily suppose the distinction made. That having been done, the losses and gains are collected into one account, usually called the Profit and Loss Account in trading concerns, and the Revenue Account in non-trading concerns. In this account the losses will appear on the Dr. side and the gains on the Cr. side, while the difference between the two sides will show the total gain or loss, as the case may be.

As every source of gain or loss has been included in this account, the total gain made during the period under review (as shown by this account) added to the Capital at starting (or the total loss deducted from the Capital at starting, as the case may be) will give the Capital at the end of the period. If there is no error in the books this will be the same thing as the Capital shown on the Balance Sheet drawn up at the

end of the period, and here, again, the check of the Double Entry comes in. It is here also that the especial value of the Double Entry shows itself, for a very few moments' consideration will show that the question "How have I made my profit?" is in reality almost more important than the question "What profit have I made?" As, however, the point involved here belongs to Accountancy rather than to Bookkeeping, it is unnecessary to pursue it further at the present time.

QUESTIONS ON CHAPTER I.

1. What is Bookkeeping?
2. What are the two objects to be aimed at in every system of Bookkeeping?
3. What is a Journal?
4. What is a Ledger?
5. What is understood by the signs "Dr.," "Cr."?
6. In what respect is every transaction recorded by Book-keeping of a twofold nature?
7. What is Double Entry?
8. What is a Balance Sheet?
9. What is understood by the term "Capital"?
10. How is the Net Profit or Loss arrived at from a set of books?

II.—SIMPLE LEDGER ACCOUNTS.

THE Ledger has already been defined as a classified record of transactions. It is now proposed to deal more in detail with the various Ledger Accounts required in books of the simplest kind; and, for the purpose of giving a more definite interest to this and the two following chapters, the accounts required to be kept by a person owning a set of chambers, let out to various tenants, will be described in detail as being, perhaps, one of the simplest sets of accounts conceivable.

Ledger Accounts are usually divided into three classes:—

- (a) Real Accounts, dealing with actual property.
- (b) Personal Accounts, showing the record of transactions between the owner and the various persons with whom he has business transactions.
- (c) Nominal Accounts, dealing with various forms of Income and Expenditure.

There is no essential difference between Real and Personal Accounts.

(a) Taking Real Accounts first, the various accounts required for the set of books now being considered are as follows :—

(1) *Cash Account*.—This account, as its name implies, records all transactions in cash, whether received or paid by the owner.

<i>Dr.</i>	CASH.		CONTRA.	<i>Cr.</i>
1909		<i>f s d</i>	1909	
Jan. 1 To John Smith ..	50 0 0		Jan. 16 By Bank ..	50 0 0
16 " Thos. Brown ..	125 0 0		" Do ..	50 0 0
21 " Wm. Robinson..	35 0 0		" Wages ..	3 6 8
Mar. 27 " James Jones ..	75 0 0		Feb. 28 " Do. ..	3 6 8
			Mar. 31 " Do. ..	3 6 8
			" Bank ..	3 6 8

In the above example the items on the Dr. side are those which have been received by the owner from the various persons named. In Bookkeeping it is the custom to consider that the owner does nothing for himself, consequently it is assumed that when a person pays him in a sum of money it is not *he* who receives it, but his Cash Account, which—having received it for him—is accordingly his debtor for the amount so received. Perhaps the transaction will appear clearer to the reader if he looks upon this account as an account between the owner and his cashier, who, having received the money on his employer's behalf, is liable to account for it subsequently, and is meanwhile a debtor for the amount so received. The word “To” in front of each name on the Dr. side signifies that—so far as that one transaction is concerned—“Cash”

(or the cashier) is "debtor to" the person from whom the amount was received.

In a similar manner Cash (or the cashier) is entitled to take credit for (or "by") the amount of the payments made from time to time out of Cash. Thus, in the example, it appears that £250 has been paid away to "Bank" and £10 in "Wages." The actual amount for which Cash is "Debtor" (*i.e.* accountable) on the 31st March is thus, not £285 (the total amount received), but £285 less £260 (the amount of the payments), which leaves £25 for which Cash is still Debtor. This is what is called a "Debtor Balance," which may be defined as the amount by which the Dr. side of an account exceeds the Cr. side.

Hence the meaning of the word "Contra" at the head of the account. The two sides of the account represent similar, but opposite, transactions, which may be set off *against* each other.

The method of balancing the Cash Account, as it is called, will be dealt with later, under the heading of Closing of Ledger.

(2) *Bank Account*.—This account is, in reality, a "Personal" Account, but on account of its likeness to the Cash Account it may, perhaps, be more conveniently dealt with under this head.

<i>Dr.</i>	BANK.		CONTRA.	<i>Cr.</i>
1909 Jan. 16	To Cash	£ s d 150 0 0	1909 Feb. 7	By Portland Estate Ground Rent ..
" 31	" Do.	50 0 0	Mar. 6	" H. Jackson (pri- vate expenses)
Mar. 31	" Do.	50 0 0	22	" Repairs ..
				£ s d 12 10 0
				100 0 0
				17 10 0

In this Account, as in the Cash Account (and as, also, in every other Ledger Account), the amounts received are entered on the Dr. side, and those paid on the Cr. side. It will be noticed that the "debit entries" (as receipts on the Dr. side are called) correspond with the payments into Bank recorded in the Cash Account. The "credit entries" are for payments made by the Bank upon orders signed by the owner, which are commonly known as cheques. The item of £100 paid on March 6 is for a sum withdrawn by H. Jackson (the owner) or his own private expenses. How this is dealt with we shall see at a later stage. The difference between the Dr. and Cr. sides here represents the balance at the Bank.

(3) *Property Account.*—This account will record the value of the property owned by Mr. Jackson, together with any transactions that may increase or decrease its value.

<i>Dr.</i>	PROPERTY.		CONTRA.	<i>Cr.</i>
1909 Jan. 1	To Balance from last account (value at this date) ..	£ s d 15,000 0 0	1909 Mar. 31	By Depreciation of Lease ..

The item on the Dr. side represents the value of the property on the 1st January, which is said to be due to the owner from this account. If any structural alterations had been made during the quarter whereby the value of the property was increased, the amount of such increase would have been entered on the Dr. side, and so have increased the £15,000 by that amount. In the present case, however, the value of the property is supposed to have decreased, by reason of the term upon which a lease of the property is held being shortened. This decrease (or depreciation, as it is called) has been estimated at £100, and is accordingly entered to the credit of the Property Account, the value of the property on 31st March being accordingly reduced to £14,900, the balance of the account on that date.

(b) Under the heading of Personal Accounts the first to be dealt with is the

(1) *Capital Account*.—This is the account between the owner and his business. The set of books under consideration do not comprise the whole of H. Jackson's affairs, but only those relating to the particular set of Chambers referred to. Whatever may be due to this business, either from debtors or investments, are called assets, and any outstanding debts due by this business are called liabilities. The amount by which the assets exceed the liabilities is called the

capital; but this capital belongs not to the business itself, but to H. Jackson as owner. The business can make no profits and hold no property for itself; both belong entirely to the owner, and, until they are drawn out of the business by the owner, he is the creditor of the business for the amount of such property and profits.

The Capital Account, then, is the account showing the extent to which the business is indebted to the owner.

Dr. CAPITAL ACCOUNT.

CONTRA.

Cr.

1909 Mar. 6	To Bank (private expenses) ..	£ s d 100 0 0	1909 Jan. 1	By Balance at this date ..	£ s d 15,197 10 0
			Mar. 31	" Revenue Account	166 5 0

In the above account it will be seen that, on 1st January, £15,197 10s. was due to H. Jackson as representing the capital of the business at that date. On the 6th March this sum was reduced by £100, which he drew out of the bank for his own private expenses. On the other hand, the Revenue Account prepared to the 31st March (*vide* page 33) shows that a profit of £166 5s. has been made during the quarter. This profit, as already explained, belongs not to the business, but to its owner, and (not having been received by him) is owing to him. His Capital Account will accordingly be credited

with this amount, and the sum due to him on the 31st March then becomes £15,263 15s.*

(2) *Business Debtors*.—The following are the Ledger Accounts showing the indebtedness of the four tenants of Mr. Jackson's Chambers :

<i>Dr.</i>	JOHN SMITH.	CONTRA.	<i>Cr.</i>	
1909 Jan. 1	To Balance at this date ..	£ s d 50 0 0	1909 Jan. 1 By Cash	£ s d 50 0 0
Mar. 31	Rent for the quarter ..	50 0 0		

<i>Dr.</i>	THOMAS BROWN.	CONTRA.	<i>Cr.</i>	
1909 Jan. 1	To Balance at this date ..	£ s d 125 0 0	1909 Jan. 16 By Cash	£ s d 125 0 0
Mar. 31	Rent for the quarter ..	125 0 0		

<i>Dr.</i>	WILLIAM ROBINSON.	CONTRA.	<i>Cr.</i>	
1909 Jan. 1	To Balance at this date ..	£ s d 35 0 0	1909 Jan. 21 By Cash	£ s d 35 0 0
Mar. 31	Rent for the quarter ..	50 0 0		

* This latter transaction is recorded in italics in the example.

<i>Dr.</i>	JAMES JONES.	CONTRA.	<i>Cr.</i>
1909 Mar. 31	To Rent for the quarter £ 75 0 0	1909 Mar. 27 By Cash	£ 75 0 0

Taking John Smith's account in the foregoing example, it will be noticed that the account is debited with the rent due from him, and that he receives credit for the amount paid by him. At the commencement of the year Smith still owed for the quarter's rent due on the 31st December, but paid cash for the same on the 1st January. On the 31st March another quarter's rent became due, but remained unpaid on the closing of the accounts on the 31st March. Smith, therefore, owed £50 on this date, which is shown on the account by the total of the Dr. side exceeding the total of the Cr. side by that amount.

The same remarks apply to the accounts of Thomas Brown and William Robinson; but, in the case of the latter, it will be noted that the amount of rent due for the March quarter is £50, while the sum due on the 1st January was £35 only. The explanation is that at the end of 1908 Robinson's rent was raised from £140 to £200 a year. It is, however, to be noted that the account, as shown, would have appeared the same had the rent for the December quarter also been £50, provided £15 had been paid on account before the close

of the year; as, in that case also, the amount due on 1st January would have been £35.

In the case of James Jones it will be noticed that he follows the commendable practice of paying his rent a few days in advance; consequently nothing was due from him on the 1st January, and nothing is due on the 31st March.

(3) *Business Creditors*.—In the set of books now under consideration the only example of these accounts is the following:

<i>Dr.</i>	PORLAND ESTATE.		CONTRA.	<i>Cr.</i>	
1909 Feb. 7	To Bank	£ s d 12 10 0	1909 Jan. 1 Mar. 31	By Balance due this date " Ground Rent to date	£ s d 12 10 0 6 5 0

It will be noticed that on 1st January the Portland Estate were creditors for £12 10s. for a half-year's ground rent, but that they received a cheque for this amount on 7th February. On the 31st March a further quarter's ground rent had accrued (£6 5s.), and this amount was still owing to them when the accounts were closed. It will be noted that the total of the entries on the Cr. side exceeds the total of entries on the debit side by £6 5s.

(c) Nominal Accounts (or, as they are sometimes called, Impersonal Accounts) naturally vary in name according to the nature of the business recorded. In this set

of books there is only one source of income or profit, and this is recorded in the

(1) Rent Account, in which the rent is entered on the Cr. side as it becomes due.

<i>Dr.</i>	RENT.	CONTRA.	<i>Cr.</i>
		1909	
		Mar. 31	
		By John Smith ..	£ s d
		" Thos. Brown ..	50 0 0
		" Wm. Robinson ..	125 0 0
		" Jas. Jones ..	50 0 0
			75 0 0

The entries in the above example will be found to correspond with the amounts debited to the accounts of the various tenants. They are placed to the credit of Rent Account because they are transactions in which a benefit has been imparted by the business to other persons who have received a corresponding benefit. It will be remembered that, in just the same way, Bank Account parted with £12 10s. to the Portland Estate, and was credited with that amount; while the Portland Estate, having received a corresponding benefit, was debited with the amount.

Returning to the Rent Account, if any rent had been allowed to a tenant, it would have been necessary to debit the Rent Account and credit the Tenant's Account with the amount so allowed; but—fortunately for Mr. Jackson—no such transaction has to be recorded.

There are four Expenses (or Loss) Accounts in this set of books, viz. :—

- (2) Wages Account.
- (3) Ground Rent Account.
- (4) Repairs Account.
- (5) Depreciation Account.

<i>Dr.</i>	WAGES.	CONTRA.	<i>Cr.</i>
1909 Jan. 31	To Cash..	£ s d	
Feb. 28	" Do.	3 6 8	
Mar. 31	" Do.	3 6 8	

<i>Dr.</i>	GROUND RENT.	CONTRA.	<i>Cr.</i>
1909 Mar. 31	To Portland Estate ..	£ s d	

<i>Dr.</i>	REPAIRS.	CONTRA.	<i>Cr.</i>
1909 Mar. 22	To Bank..	£ s d	

<i>Dr.</i>	DEPRECIATION.	CONTRA.	<i>Cr.</i>
1909 Mar. 31	To Property Account..	£ s d	

The Wages Account records the cash payments to the attendant for looking after and cleaning the chambers. It is a benefit received by the department represented by this account, which is accordingly debited ; but, inasmuch as no future benefit will result to the business from its payment, it is a business expense for the quarter, and goes towards the reduction of the profit. A similar remark applies to the Ground Rent and Repairs Account ; but, with regard to the latter, it is to be noted in passing that, had there been any repairs executed but not paid for, they would be debited to Repairs Account (increasing the balance of that account) and credited to a Personal Account opened in the name of the creditor, in precisely the same manner as the amount due for ground rent has been dealt with.

The object of the Depreciation Account has already been explained ; when the closing of the books is further dealt with, the final effect of this transaction will be obvious.

Before leaving the Nominal Accounts it may be added that—unlike the Personal and Real Accounts—the Nominal Accounts are closed each quarter (or at whatever other period the books are balanced) and the balance of each collected into one account, called the Revenue or Profit and Loss Account, the balance of which account shows at a glance the net result of the period's transactions. This point will, however, be fully explained later on.

TRIAL BALANCE.

Having now explained the meaning of each entry in the Ledger of Mr. Jackson, it is time to consider what is known as the balancing of the accounts.

The twofold nature of each transaction in Bookkeeping—by which each benefit conferred involves a corresponding benefit received—has already been dwelt upon; and it will be noticed that this twofold aspect of the transactions (*or transfers*, as they really are) has been strictly maintained in the set of books with which we have been dealing. In order to test the clerical accuracy of work—a most necessary precaution where the number of entries is very numerous—it is usual to take out what is called a “Trial Balance,” of which the following is a specimen:—

TRIAL BALANCE, 31st March 1909.

Totals.

Balances.

	<i>Dr.</i> £ s d	<i>Cr.</i> £ s d	<i>Dr.</i> £ s d	<i>Cr.</i> £ s d
Cash	285 0 0	260 0 0	25 0 0	..
Bank	250 0 0	130 0 0	120 0 0	..
Property	15,000 0 0	100 0 0	14,900 0 0	..
*Capital	100 0 0	15,197 10 0	..	15,097 10 0
John Smith	100 0 0	50 0 0	50 0 0	..
Thomas Brown	250 0 0	125 0 0	125 0 0	..
William Robinson	85 0 0	35 0 0	50 0 0	..
James Jones	75 0 0	75 0 0	..	..
Portland Estate	12 10 0	18 15 0	..	6 5 0
Rent .. . . .	..	300 0 0	..	300 0 0
Wages	10 0 0	..	10 0 0	..
Ground Rent	6 5 0	..	6 5 0	..
Repairs	17 10 0	..	17 10 0	..
Depreciation	100 0 0	..	100 0 0	..
	£16,291 5 0	£16,291 5 0	£15,403 15 0	£15,403 15 0

* It is to be remembered that the figures in italics on the credit side of this account do not find their way to that place until a later period than that now being considered. The Revenue Account has not yet been compiled—still less its balance ascertained and transferred to Capital.

The first column of figures in the above example represents the total amount on the Dr. side of each account, the second column the total amount on the Cr. side of each account, the third column the amount by which the Dr. column exceeds the Cr. column, and the fourth, the amount by which the Cr. column exceeds the Dr. column.

If each transaction has been correctly recorded as a transfer, affecting two accounts in equal and opposite ways, it follows that the totals of the first two columns must be the same, and, consequently, that the totals of the second two must be the same. If, therefore, the totals *do actually agree*, there is good ground for supposing that the transactions are correctly recorded; and it is the check thus afforded by the Trial Balance which forms one of the great advantages of Double Entry.

Having now ascertained, by means of the Trial Balance, the accuracy of the record of the transactions, the book-keeper may—as shown in the following chapter—proceed to “close the books” and prepare a Revenue Account and Balance Sheet.

QUESTIONS ON CHAPTER II.

1. How many different classes of accounts are there?
2. Name them.
3. Give examples of each class.
4. State the use of each of your examples.
5. What would a Dr. balance upon each of your examples imply?
6. What would a Cr. Balance imply?
7. What is a Trial Balance?
8. What is its object, and how is it effected?

III—CLOSING THE LEDGER.

THE object of “closing” the Ledger is twofold, (1) to ascertain the net result of (*i.e.*, the profit or loss arising from) the transactions recorded, and (2) to place on record, in a form convenient for subsequent reference, the state of each account on the date at which the books are closed. It has already been stated that, when the books are closed, the balance of each Nominal Account (or, in other words, the total profit or loss derived from every source) is transferred to one account, generally called, in trading concerns, the Profit and Loss Account, and, in non-trading concerns, the Revenue Account. It is now proposed to proceed to compile a Revenue Account from the transactions recorded in the last chapter.

As the Revenue Account is merely a collection of the balances standing on the various Nominal Accounts, it is obvious that Dr. balances will be transferred to the Dr. side of the Revenue Account, and Cr. balances to the Cr. side of the Revenue Account. Further, it is obvious that a Dr. balance on a Nominal Account cannot after having been transferred to the debit of Revenue Account, still remain standing to the debit of the Nominal Account ; it is therefore necessary when

a debit balance is transferred to the Revenue Account, that the Nominal Account should at the same time be credited with the same amount. In the same way, if it is desired to transfer the Cr. balance of a Nominal Account to the Cr. of the Revenue Account, it is necessary to both debit the Nominal Account and credit the Revenue Account with the amount of such balance. The two sides of the Nominal Account will then total up to the same amount—"balance" as it is called—and such total is then entered on both sides to bear witness to the fact that such account does balance, and a double line is ruled under each total to signify that the account is "closed."

Referring back to the Rent Account given in the last chapter, it will be perceived that there is a credit balance on this account of £300. To transfer this balance to the credit of Revenue it is necessary to debit Rent Account, and credit Revenue Account with £300. Then add up both sides of the Rent Account, insert the total (£300) on each side, rule a double line under the total, and the Rent Account is closed; but there remains, of course, a Cr. balance of (£300) on the Revenue Account.

In the same way the four remaining Nominal Accounts are closed by crediting Wages Account with £10, Ground Rent Account with £6 5s., Repairs Account with £17 10s., and Depreciation Account with £100, at the same time debiting Revenue Account with all four amounts. These four Nominal

Accounts can be then added up and closed, but there is left standing to the debit of Revenue £133 15s., exactly the same amount as was formerly standing to the debit of the four Nominal Accounts collectively.

The following examples will show these transactions clearly, the italics representing the closing entries described above :—

<i>Dr.</i>	RENT.		CONTRA.	<i>Cr.</i>
<i>1909</i> <i>Mar. 31</i>	<i>To Revenue Account</i>	<i>£ 300 0 0</i>	<i>1909</i> <i>Mar. 31</i>	<i>By John Smith ..</i> <i>" Thos. Brown ..</i> <i>" W. Robinson ..</i> <i>" Jas. Jones ..</i> <i>£ 300 0 0</i>

<i>Dr.</i>	WAGES.		CONTRA.	<i>Cr.</i>
<i>1909</i> <i>Jan. 31</i>	<i>To Cash ..</i>	<i>£ 3 6 8</i>	<i>1909</i> <i>Mar. 31</i>	<i>By Revenue Account..</i> <i>£ 10 0 0</i>

<i>Dr.</i>	GROUND RENT.		CONTRA.	<i>Cr.</i>
<i>1909</i> <i>Mar. 31</i>	<i>To Portland Estate ..</i>	<i>£ 6 5 0</i>	<i>1909</i> <i>Mar. 31</i>	<i>By Revenue Account..</i> <i>£ 6 5 0</i>

<i>Dr.</i>	REPAIRS.		CONTRA.	<i>Cr.</i>
<i>1909</i> <i>Mar. 22</i>	<i>To Bank ..</i>	<i>£ 17 10 0</i>	<i>1909</i> <i>Mar. 31</i>	<i>By Revenue Account..</i> <i>£ 17 10 0</i>

Dr.	DEPRECIATION.	CONTRA.	Cr.
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1909 Mar. 31	To Property A/c ..	$\begin{array}{l} \text{£} \\ 100 \end{array}$ $\begin{array}{l} \text{s} \\ 0 \end{array}$ $\begin{array}{l} \text{d} \\ 0 \end{array}$	1909 Mar. 31	By Revenue Account	$\begin{array}{l} \text{£} \\ 100 \end{array}$ $\begin{array}{l} \text{s} \\ 0 \end{array}$ $\begin{array}{l} \text{d} \\ 0 \end{array}$
-----------------	--------------------	------------------------------------------------------------------------------------------------------------------------------------------	-----------------	--------------------	------------------------------------------------------------------------------------------------------------------------------------------

Dr.	REVENUE ACCOUNT.	CONTRA.	Cr.
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1909 Mar. 31	To Wages ..	$\begin{array}{l} \text{£} \\ 10 \end{array}$ $\begin{array}{l} \text{s} \\ 0 \end{array}$ $\begin{array}{l} \text{d} \\ 0 \end{array}$	1909 Mar. 31	By Rent ..	$\begin{array}{l} \text{£} \\ 300 \end{array}$ $\begin{array}{l} \text{s} \\ 0 \end{array}$ $\begin{array}{l} \text{d} \\ 0 \end{array}$
"	" Ground Rent ..	6 5 0			
"	" Repairs ..	17 10 0			
"	" Depreciation ..	100 0 0			

It will be noticed that where there is only one line on each side of an account (as in the Ground Rent and the two following accounts) the total is not repeated, a double line merely being inserted under the figures on each side.

In order to make it quite clear to the reader that the above transactions have in no way affected the agreement of the Trial Balance, another Trial Balance is given below, as it would appear if extracted at this time—namely, *after* the Nominal Accounts have been closed :—

TRIAL BALANCE, 31st March 1909.

(After closing the Nominal Accounts.)

	Totals.			Balances.		
	Dr.	Cr.		Dr.	Cr.	
Cash	£ 285 0 0	£ 260 0 0		£ 25 0 0	£ 120 0 0	..
Bank	250 0 0	130 0 0		14,900 0 0		..
Property	15,000 0 0	100 0 0				..
Capital	100 0 0	15,197 10 0				15,097 10 0
John Smith	100 0 0	50 0 0		50 0 0		..
Thomas Brown	250 0 0	125 0 0		125 0 0		..
Wm. Robinson	85 0 0	35 0 0		50 0 0		..
James Jones	75 0 0	75 0 0				..
Portland Estate	12 10 0	18 15 0				6 5 0
Revenue Account	133 15 0	300 0 0				166 5 0
	£16,291 5 0	£16,291 5 0		£15,270 0 0	£15,270 0 0	

It will be remembered that the Revenue Account has been credited with every source of income, and debited with every source of expense or loss; it therefore follows that the amount by which the credit side exceeds the total of the debit side is the net profit for the period over which the transactions extend. This net profit is £166 5s.

As already stated, this net profit does not belong to the business, but is owed by the business to its proprietor, H. Jackson. H. Jackson is thus a creditor of the business, not only for £15,097 10s. (the balance of his Capital Account) but also for this £166 5s. of profit. This fact is recorded by crediting the Capital Account with £166 5s. (as shown by the italics in the Capital Account stated in Chapter II.), at the

same time debiting Revenue with that amount, and closing the account thus:—

<i>Dr.</i>	REVENUE ACCOUNT.	<i>Cr.</i>																																			
1909 Mar. 31	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; width: 20%;">To Wages ..</th> <th style="text-align: right; width: 10%;">£ s d</th> <th style="text-align: left; width: 20%;">1909 Mar. 31</th> <th style="text-align: right; width: 10%;">By Rent ..</th> <th style="text-align: right; width: 10%;">£ s d</th> </tr> </thead> <tbody> <tr> <td>" " Ground Rent ..</td> <td style="text-align: right;">10 0 0</td> <td></td> <td></td> <td style="text-align: right;">300 0 0</td> </tr> <tr> <td>" " Repairs ..</td> <td style="text-align: right;">6 5 0</td> <td></td> <td></td> <td></td> </tr> <tr> <td>" " Depreciation ..</td> <td style="text-align: right;">17 10 0</td> <td></td> <td></td> <td></td> </tr> <tr> <td>" " Capital A/c (net profit for the quarter) ..</td> <td style="text-align: right;">100 0 0</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right; border-top: none;"><i>166 5 0</i></td> <td></td> <td></td> <td style="text-align: right; border-top: none;"><i>£300 0 0</i></td> </tr> <tr> <td></td> <td style="text-align: right; border-top: none; border-bottom: 3px double black;"><i>£300 0 0</i></td> <td></td> <td></td> <td style="text-align: right; border-top: none; border-bottom: 3px double black;"><i>£300 0 0</i></td> </tr> </tbody> </table>	To Wages ..	£ s d	1909 Mar. 31	By Rent ..	£ s d	" " Ground Rent ..	10 0 0			300 0 0	" " Repairs ..	6 5 0				" " Depreciation ..	17 10 0				" " Capital A/c (net profit for the quarter) ..	100 0 0					<i>166 5 0</i>			<i>£300 0 0</i>		<i>£300 0 0</i>			<i>£300 0 0</i>	
To Wages ..	£ s d	1909 Mar. 31	By Rent ..	£ s d																																	
" " Ground Rent ..	10 0 0			300 0 0																																	
" " Repairs ..	6 5 0																																				
" " Depreciation ..	17 10 0																																				
" " Capital A/c (net profit for the quarter) ..	100 0 0																																				
	<i>166 5 0</i>			<i>£300 0 0</i>																																	
	<i>£300 0 0</i>			<i>£300 0 0</i>																																	

The Revenue Account, being merely a collection of the balances of the Nominal Accounts, is itself merely a Nominal Account (although, for the sake of brevity, it has hitherto been spoken of as "Nominal Accounts" in contrast to "Revenue Account"), but now that all the Nominal Accounts are closed, and only Real and Personal Accounts left open, the bookkeeper is in a position to apply the second important check afforded by Double Entry—the agreement of the Balance Sheet.

As will be remembered, Real Accounts represent Assets, and Personal Accounts either Assets or Liabilities. The credit balance of the Capital Account represents the sum by which the assets exceed the liabilities due to outside creditors (that is, creditors other than the proprietor), and such assets and liabilities are the balances of the Real and Personal Accounts

(except the Capital Account). If, therefore, the accounts are correctly stated, a Balance Sheet comprising the balances of all the accounts except the Capital will show the same balance as that shown by the Capital Account.

The following is a Balance Sheet drawn up on these lines :

BALANCE SHEET, 31st March 1909.

LIABILITIES.	£ s d	ASSETS.	£ s d
Portland Estate ..	6 5 0	Cash	25 0 0
		Bank	120 0 0
		Property	14,900 0 0
		John Smith	50 0 0
		Thos. Brown	125 0 0
		Wm. Robinson	50 0 0

It will be seen that the assets' side of this Balance Sheet amounts to £15,270, while the liabilities' side is £6 5s. The difference is therefore £15,263 15s., representing the Capital, and this is the amount shown as the balance of the Capital Account.

To express this in another way. The business, as such, can own no property, but owes everything to its proprietor. It consequently follows that, if the accounts are correctly recorded, all the assets will be equal to all the liabilities (that is, all the liabilities *including* the Capital Account), or, in other words, the total of the debit balances will always equal the total of the credit balances.

To show that this is so in the present case, the Balance Sheet is here given in its complete form. The items have been re-arranged in the manner in which they would usually be stated, but the reader will have no difficulty in following each Ledger Balance to its place in the Balance Sheet.

BALANCE SHEET, 31st March 1909.

LIABILITIES.	£ s d	ASSETS.	£ s d
<i>Capital Account :</i>		<i>Property Account :</i>	
Balance 1 Jan. £15,197 10 0		Balance 1 Jan. £15,000 0 0	
Less withdrawn 100 0 0		Less Depreciation 100 0 0	
£15,097 10 0			14,900 0 0
Net Profit for the quarter 166 5 0	15,263 15 0	<i>Debtors :</i>	
		John Smith .. £50 0 0	
<i>Creditors :</i>		Thos. Brown .. 125 0 0	
Portland Estate .. 6 5 0		Wm. Robinson .. 50 0 0	
			225 0 0
		<i>Cash :</i>	
		At Bank .. 120 0 0	
		In hand.. 25 0 0	
			145 0 0
	£ 15,270 0 0		£ 15,270 0 0

It may here be usefully repeated that the great advantage of Double Entry is that it not only affords a most valuable check upon the clerical accuracy of the books, but also—by means of the Revenue or Profit and Loss Account—it furnishes full details of the manner in which the profit, or loss, has been arrived at. It is thus possible to compare the various items of income and expenditure of different periods, and to consider whether or no certain sources of income are paying their way, and whether (and, if so, where) further economies can be effected. It is with this end in view that the

various Nominal Accounts are kept, and the balance of each finally transferred to the Revenue Account. It will be obvious that the balance of the Revenue Account would have been just the same if all items of income or expenditure had been posted to it direct, instead of being first posted to the various Nominal Accounts and then transferred ; but in the former case—especially if the items were numerous—the record would be too confused to afford any data for the comparison of the various details in different periods. It is, indeed, possible to go even a step further, and say that the balance of the Capital Account would have been the same if all income and expenses had been posted to that account direct, without availing oneself of the analytical advantages of Nominal Accounts.

The Real and Personal Accounts still remain to be dealt with, not because the balances have to be transferred to any other account, but because—as stated at the commencement of this chapter—it is desirable to place on record, in a form convenient for subsequent reference, the state of each account on the date at which the books are closed.

The following example will show, better than any mere explanation, the method in which these accounts are dealt with. The process is called “bringing down the balances.”

Dr.

CASH.

CONTRA.

Cr.

1909		£ s d	1909		£ s d
Jan. 1	To John Smith ..	50 0 0	Jan. 16	By Bank ..	150 0 0
16	" Thos. Brown ..	125 0 0	31	" Do. ..	50 0 0
21	" W. Robinson ..	35 0 0		" Wages ..	3 6 8
Mar. 27	" Jas. Jones ..	75 0 0	Feb. 28	" Do. ..	3 6 8
			Mar. 31	" Do. ..	3 6 8
			"	" Bank ..	50 0 0
			"	" Balance ..	25 0 0
		£285 0 0			£285 0 0
1909	<i>To Balance</i> ..	25 0 0			
April 1					

Dr.

BANK

CONTRA.

Cr.

1909		£ s d	1909		£ s d
Jan. 16	To Cash ..	150 0 0	Feb. 7	By Portland Estate, Ground Rent..	12 10 0
31	" Do. ..	50 0 0	Mar. 6	" H. Jackson (pri- vate expenses)	100 0 0
Mar. 31	" Do. ..	50 0 0	22	" Repairs ..	17 10 0
			31	" Balance ..	120 0 0
		£250 0 0			£250 0 0
1909	<i>To Balance</i> ..	120 0 0			
April 1					

Dr.

PROPERTY.

CONTRA.

Cr.

1909		£ s d	1909		£ s d
Jan. 1	To Balance from last Account (value at this date) ..	15,000 0 0	Mar. 31	By Depreciation of Lease.. ..	100 0 0
			" "	" Balance ..	14,900 0 0
		£ 15,000 0 0			£ 15,000 0 0
1909	<i>To Balance</i> ..	14,900 0 0			
April 1					

Dr. CAPITAL ACCOUNT. *CONTRA.* *Cr.*

1909	To Bank (private expenses) ..	£ s d	1909	By Balance at this date ..	£ s d
Mar. 6		100 0 0	Jan. 1		
31	" Balance	15,263 15 0	Mar. 31	" Revenue A/c ..	15,197 10 0
					166 5 0
		£ 15,363 15 0			£ 15,363 15 0
		<hr/>			<hr/>
			1909		
			April 1	By Balance ..	15,263 15 0

Dr. JOHN SMITH. *CONTRA.* *Cr.*

1909	To Balance at this date ..	£ s d	1909	By Cash	£ s d
Jan. 1		50 0 0	Jan. 1		50 0 0
Mar. 31	" Rent for the quarter.. ..	50 0 0	Mar. 31	" Balance	50 0 0
		£100 0 0			£100 0 0
		<hr/>			<hr/>
1909	To Balance	50 0 0			

Dr. THOMAS BROWN. *CONTRA.* *Cr.*

1909	To Balance at this date ..	£ s d	1909	By Cash	£ s d
Jan. 1		125 0 0	Jan. 16		125 0 0
Mar. 31	" Rent for the quarter.. ..	125 0 0	Mar. 31	" Balance	125 0 0
		£250 0 0			£250 0 0
		<hr/>			<hr/>
1909	To Balance	125 0 0			

Dr.	WILLIAM ROBINSON.	CONTRA.	Cr.
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1909 Jan. 1 Mar. 31	To Balance at this date " Rent for the quarter	£ s d 35 0 0 50 0 0	1909 Jan. 21 Mar. 31	By Cash.. " Balance	£ s d 35 0 0
		£ 85 0 0			£ 85 0 0
1909 April 1	To Balance	50 0 0			

Dr.	JAMES JONES.	CONTRA.	Cr.
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1909 Mar. 31	To Rent for the quarter	£ s d 75 0 0	1909 Mar. 27	By Cash..	£ s d 75 0 0
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Dr.	PORTLAND ESTATE.	CONTRA.	Cr.
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1909 Feb. 7 Mar. 31	To Bank " Balance	£ s d 12 10 0 6 5 0	1909 Jan. 1 Mar. 31	By Balance due at this date " Ground Rent to date	£ s d 12 10 0 6 5 0
		£ 18 15 0			£ 18 15 0
1909 April 1	By Balance	6 5 0			

It will be observed that these balances, when brought down as shown above, are in a very convenient form for future reference (even after subsequent entries have been added), but that in no case do they effect any alteration in the balance standing on the account when the Balance Sheet was taken out.

It is hardly to be supposed that, at this early stage, the student will have thoroughly grasped the whole of the process set forth in this and the preceding chapter; but it is hoped he will have gathered a sufficiently general idea of the purpose of the various Ledger Accounts to enable him to intelligently follow the progress of the transactions recorded in the next chapter, where the transactions of Henry Jackson during the succeeding quarter are fully dealt with.

QUESTIONS ON CHAPTER III.

1. What are the objects of "closing" a Ledger?
2. What does the process consist of?
3. What account shows the net profit, and why?
4. What is done with the balance of the Revenue, or Profit and Loss Account?
5. Why must the Revenue Account be completed before the Balance Sheet can be prepared?
6. What is the object of keeping Nominal Accounts?
7. Wherein lies the advantage of Double Entry?
8. What is meant by "transferring" a balance?
9. What is meant by "bringing down" a balance?

IV.—TRANSACTIONS OF HENRY JACKSON.

THE following are the transactions of Henry Jackson during the quarter following that which was considered in the previous chapters :—

TRANSACTIONS during Quarter ending 30th June 1909.

			£	s	d
1.	April	6	Received from Thomas Brown, Rent due from him ..		
2.	"	6	Paid into Bank ..	125	0 0
3.	"	10	Received from Wm. Robinson, Rent due from him ..	140	0 0
4.	"	12	Received from John Smith, Rent due from him ..	50	0 0
5.	"	13	Paid into Bank ..	50	0 0
6.	"	30	Paid Wages ..	100	0 0
7.	May	12	Drew Cheque for private expenses ..	3	6 8
8.	"	30	Paid Wages ..	100	0 0
9.	June	15	Paid for various Repairs (cheque) ..	3	6 8
10.	"	30	Paid Wages ..	12	16 0
			Sent out the following accounts for Rent due :		
11.	"	30	John Smith ..	50	0 0
12.	"	30	William Robinson ..	50	0 0
13.	"	30	Thomas Brown ..	125	0 0
14.	"	30	James Jones ..	75	0 0
15.	"	30	James Jones paid Rent due by him ..	75	0 0
16.	"	30	Received Henry Williams' account for Repairs ..	4	14 0
17.	"	30	Ground Rent due to Portland Estate for quarter ..	5	5 0
18.	"	30	Depreciation to be written off Lease of Property ..	105	0 0
19.	"	30	Drew Cheque for private expenses ..	100	0 0

It will be remembered that, in Chapter I., it was stated that the original method of bookkeeping was to record all transactions daily, in the order of their occurrence, in a book called the Journal, and at a subsequent date to record the

same transactions in the Ledger in a classified form. In Chapter II. an endeavour was made to show the form of classification that would be adopted in a case like the present one; and in Chapter III. the object and meaning of the particular form adopted was further explained.

The reason for dealing with the Ledger Accounts before explaining the form in which the Journal is kept has been that the form of a Journal entry is entirely dependent upon the form of the subsequent Ledger entries which have to be made from the Journal; and accordingly it was thought best to first give the student a clear idea of the object and meaning of each Ledger entry, before endeavouring to explain the form of the Journal entry from which the Ledger entry is made.

It is important to remember that the Ledger contains, in itself, a complete record of every transaction, and that, therefore, it would be possible to dispense altogether with any other book; but the risk of error, or omission, would be so considerable that, in all probability, no time or trouble would be saved by so doing.

In the case of cash transactions, however, it has become very general to dispense with the Journal and keep the Ledger Account for "Cash" in a separate book from the other Ledger Accounts. ¶The reason for this departure from the

general rule is as follows : When every transaction is journalised, it is, of course, usual to keep the Journal written up daily, but—by reason of press of business, or from various other reasons—it frequently happens that the posting of the Journal into the Ledger is a week or more behind. Now it is, of course, of the greatest importance that the balance of the Cash Account be always readily ascertainable, and from this necessity arose the practice of keeping the cash transactions somewhat differently from the rest. Other incidental advantages doubtless exist, but this is probably the actual reason that led to the original departure.

The Cash Book is ruled exactly the same as the Ledger, and in it the cash received or paid is recorded in exactly the same manner as it would be in a Ledger Account, except that each transaction is recorded as it occurs, instead of being recorded in the Journal first and afterwards posted.

By this means the balance of the account may be at any time ascertained ; but this in itself, of course, constitutes no “Double Entry.” How this is obtained the reader will, perhaps, best see by carefully following the process of writing up the Cash Book from the above transactions. It must not be forgotten, however, that Jackson commenced the quarter with a cash balance of £25 in hand, as shown on the Balance Sheet on page 37.

The transactions involving a transfer of cash are Nos. 1, 2, 3, 4, 5, 6, 8, 10, and 15, which should be recorded in the manner already explained—the receipts on the Dr. side and the payments on the Cr. side, thus :—

<i>Dr.</i>	CASH.		CONTRA.	<i>Cr.</i>
1909		£ s d	1909	
April 1	To Balance from last account ..	25 0 0	April 6 By Bank ..	140 0 0
6	" Thos. Brown 5	125 0 0	" Do. ..	100 0 0
10	" W. Robinson 6	50 0 0	" Wages ..	3 6 8
12	" Jno. Smith.. 4	50 0 0	" Do. ..	3 6 8
June 30	" Jas. Jones .. 7	75 0 0	" Do. ..	3 6 8

Now take the remaining transactions and proceed to show the Journal entry required for each. The object of the Journal entry is to clearly indicate what account in the Ledger has to be debited, and what account credited, in order to record each transaction. The form usually adopted is to first write the name of the account to be debited, with the amount, in the first (or Dr.) column; and then the name of the account to be credited, the amount being repeated in the second (or Cr.) column; a full explanation of the transaction is then written underneath.

The form of Journal entries for transactions Nos. 7, 9, 11, 12, 13, 14, 16, 17, 18, and 19 is as follows :—

JOURNAL, 1909.

Dr. Cr.

			£	s	d	£	s	d
			3	I		100	0	0
7. May 12	Capital Account							
" "	To Bank							
	(For cheque drawn this day for private expenses.)							
9. June 15	Repairs							
" "	To Bank							
	(For cheque drawn this day in payment of various repairs.)							
11. June 30	John Smith							
" "	To Rent							
12. "	William Robinson							
" "	To Rent							
13. "	Thomas Brown							
" "	To Rent							
14. "	James Jones							
" "	To Rent							
	(Being the amounts of accounts sent them this day for rent for the quarter now due.)							
16. June 30	Repairs							
" "	To Henry Williams							
	(Being the amount of his account for repairs.)							
17. June 30	Ground Rent							
" "	To Portland Estate							
	(Being one quarter's Ground Rent, making in all £12 10s. now due, as per their half-yearly account.)							
18. June 30	Depreciation							
" "	To Property Account							
	(Being the amount written off lease for the quarter.)							
19. June 30	Capital Account							
" "	To Bank							
	(For cheque drawn this day for private expenses.)							

A careful comparison of these entries with the records of the transactions themselves will serve to show the *reason* for the form of each entry—and it need hardly be added that, until the student can assign a reason for every entry he

makes, he has made but little progress in the science of bookkeeping.

It will be seen that, at this time, a record has been made somewhere for every one of the transactions shown at the commencement of this chapter. Those transactions involving the transfer of cash have been recorded in the Cash Book, and those transactions not recording the transfer of cash have been recorded in the Journal. The next step is to write up (or post) these records in the Ledger.

It must be remembered that each transaction requires to be entered once upon each side of the Ledger. It has been further explained that the Cash Book is, in reality, a Ledger Account, but that the Journal is not. It therefore follows that those transactions that are recorded in the Cash Book have already, in point of fact, been recorded once in the Ledger; to complete the record of these transactions, therefore, it is necessary that they should find their way once more into the Ledger upon the opposite side to that on which they are entered in the Cash Book. The Dr. side of the Cash Book must therefore be posted to the Cr. of the various accounts of the persons who have paid Jackson the money, and the Cr. side of the Cash Book to the Dr. of the various accounts upon whose behalf he has incurred the expenditure, and the record of the cash transactions is complete. The

transactions recorded in the Journal, on the other hand, require to be passed into the Ledger *twice*, once to the Dr. and once to the Cr., and for this reason the form of the Journal entry has been adapted to facilitate this process. The amounts in the Dr. column are posted to the Dr. side of the Ledger Accounts named, and the amounts in the Cr. column of the Journal are posted to the Cr. of the various Ledger Accounts.

The Ledger Accounts so posted are given below; they should be carefully compared with the Cash Book and Journal, already given—a process that can easily be accomplished by the aid of reference folios. It will be noticed that the balances standing upon the various accounts at the date of our last Balance Sheet have been brought forward into these accounts.

1

	<i>Dr.</i>	BANK.			CONTRA.		<i>Cr.</i>
1909			£ s d	1909			£ s d
April 1	To Balance ..	I	120 0 0	May 12	By Capital Account	J. 1	100 0 0
6	" Cash ..	I	140 0 0	June 15	" Repairs ..	"	12 16 8
13	" Do. ..	I	100 0 0	30	" Capital Account	"	100 0 0

2

	<i>Dr.</i>	PROPERTY ACCOUNT.		<i>Cr.</i>
1909			£ s d	1909
April 1	To Balance ..	I	14,900 0 0	June 30 By Depreciation.. J. 1

Dr.

CAPITAL ACCOUNT.

Cr.

1909 May 12 June 30	To Bank ..	J. I	£ s d	1909 April 1	By Balance ..	£ s d
	" Do. ..	"	100 0 0 100 0 0			15,263 15 0

3

Dr.

JOHN SMITH.

Cr.

1909 April 1 June 30	To Balance ..	J. I	£ s d	1909 April 12	By Cash ..	£ s d
	" Rent ..	"	50 0 0 50 0 0			50 0 0

4

Dr.

THOMAS BROWN.

Cr.

1909 April 1 June 30	To Balance ..	J. I	£ s d	1909 April 6	By Cash ..	£ s d
	" Rent ..	"	125 0 0 125 0 0			125 0 0

5

Dr.

WILLIAM ROBINSON.

Cr.

1909 April 1 June 30	To Balance ..	J. I	£ s d	1909 April 10	By Cash ..	£ s d
	" Rent ..	"	50 0 0 50 0 0			50 0 0

6

Dr.

JAMES JONES.

Cr.

1909 June 30	To Rent ..	J. I	£ s d	1909 June 30	By Cash ..	£ s d
		"	75 0 0			75 0 0

7

8

Dr.

PORLAND ESTATE.

Cr.

				1909				
				April 1	By Balance ..		£	s
				June 30	" Ground Rent .. J. 1		6	5

9

Dr.

HENRY WILLIAMS

Cr.

				1909	June 30	By Repairs	..	J. 1	<i>£ s d</i>
									4 14 0

10

Dr.

RENT.

Gr.

1909			£	\$	c
	June 30	By J. Smith ..	J. I.		
"		Wm. Robinson ..	50	0	0
"		T. Brown ..	" 50	0	0
"		J. Jones ..	" 125	0	0
			" 75	0	0

11

Dr.

WAGES.

Cr.

			£	s	d		
1909							
April 30	To Cash ..	..	I	3	6	8	
May 31	" Do. ..	..	"	3	6	8	
June 30	" Do. ..	..	"	3	6	8	

12

Dr.

GROUND RENT.

Cr.

1909 June 30	To Portland Estate	J. I.	f	s	d			
			6	5	0			

13

<i>Dr.</i>	REPAIRS.	<i>Cr.</i>
1909 June 15 To Bank .. J. I	£ s. d. 12 16 0	
30 " H. Williams .. "	4 14 0	

14

<i>Dr.</i>	DEPRECIATION.	<i>Cr.</i>
1909 June 30 To Property A/c.. J. I	£ s. d. 105 0 0	

It will now be seen that every transaction has been posted twice into the Ledger—thus giving effect to the two-fold nature of each transfer. Those accounts that have received benefits have been debited, and those that have imparted benefits have been credited; and, consequently, the total debits in the Ledger will be equal to the total credits.

As already explained, it is very desirable that there should be some means of ascertaining that the entries that have actually been made do really come to the same thing as those which should theoretically have been made. To test this, the bookkeeper would proceed to extract a Trial Balance, in the same manner as shown in Chapter II.

The following is the Trial Balance of Henry Jackson's Ledger on the 30th June :—

TRIAL BALANCE, 30th June 1909.

C.		S.	D.	C.	S.	D.	C.	S.	D.	C.	S.	D.	
L.	1.	Cash ..	..	325	0	0	250	0	0	75	0	0
	1.	Bank ..	..	360	0	0	212	16	0	147	4	0
	2.	Property ..	..	14,900	0	0	105	0	0	14,795	0	0
	3.	Capital ..	..	200	0	0	15,263	15	0	..	..	..
	4.	John Smith ..	..	100	0	0	50	0	0	50	0	0
	5.	Thomas Brown ..	..	250	0	0	125	0	0	125	0	0
	6.	Williams Robinson ..	..	100	0	0	50	0	0	50	0	0
	7.	James Jones ..	..	75	0	0	75	0	0	..	..	..
	8.	Portland Estate	12	10	0	12	10	0
	9.	Henry Williams	4	14	0	4	14	0
	10.	Rent	300	0	0	300	0	0
	11.	Wages ..	..	10	0	0	..	..	..	10	0	0
	12.	Ground Rent ..	..	6	5	0	..	..	..	6	5	0
	13.	Repairs ..	..	17	10	0	..	..	..	17	10	0
	14.	Depreciation ..	..	105	0	0	..	..	..	105	0	0
				£16,448	15	0	£16,448	15	0	£15,380	19	0	
				£16,448	15	0	£16,448	15	0	£15,380	19	0	

Before proceeding to close the books for the quarter, it will be well to say something concerning the Continental systems of Bookkeeping; and for the purpose of more clearly showing the differences of detail between the two methods, it is proposed to deal with the same set of transactions as those already considered above.

QUESTIONS ON CHAPTER IV.

1. What is gained by not journalising cash transactions ?
2. How are cash receipts and payments recorded ?
3. What entries are necessary to record the fact that A. has become my debtor ?
4. What entries are necessary to record the fact that B. has become my creditor ?
5. If certain property that I hold has become less valuable, how should I record the fact ?

V.—THE “CONTINENTAL” SYSTEM.

It will be remembered that, in the first chapter, attention was drawn to the fact that the system generally adopted on the Continent is somewhat different to that in use in this country. The reason for going more deeply into the matter now is that the Continental system is theoretically more complete than our own, and will therefore help the student to more clearly understand the abbreviated method in general use in this country. It may, however, be mentioned that for some businesses the Continental method is the best to adopt, and that a general acquaintance with its details will, therefore, be by no means a waste of time—even to the student who thoroughly understands the English system.

The essential feature of the method which the reader is now called upon to consider is the supreme importance of the Journal. Every transaction is passed through this book in the fullest detail, while the Ledger entries are made as few and as general as possible. The Journal thus becomes the book to which the merchant constantly refers, while the use of the Ledger becomes restricted almost to the position of a mere collecting medium for the Revenue Account and Balance Sheet items.

It may interest the reader to know that, in many countries, every trader is compelled by law to record all his transactions in a Journal.

For the purpose of showing more clearly the exact difference between the two systems, it will be well to take the position of Henry Jackson upon the 1st April, and his transactions for the subsequent three months, and show the method by which they would be recorded upon the Continental system. It will be noticed that the form of the Journal here given is somewhat different from the ordinary English form; the outside column being used for both Dr. and Cr. items, and the inside one for details of the "Sundries." The Ledger folio of the Dr. posting is to the extreme left, while the date is placed at the head of the entry.

JOURNAL, 1909.

	April 1.		£ s d	£ s d
*	Sundries to Opening Balance	.. .. ..	I	15,270 0 0
	For the following assets due to me at this date, viz.:—			
2	Property		14,900 0 0	
3	John Smith		50 0 0	
4	Thos. Brown		125 0 0	
5	Wm. Robinson..		50 0 0	
6	Bank		120 0 0	
7	Cash		25 0 0	
<hr/>				
I	Opening Balance to Sundries	.. .. ..	*	15,270 0 0
	For the following liabilities due from me at this date, viz.:—			
	Capital		8 15,263 15 0	
	Portland Estate		9 6 5 0	
<hr/>				
	April 6.			
7	Cash to Thos. Brown		4	125 0 0
	Being the amount received from him this day.			

			£	s	d	£	s	d
			7			140	0	0
	Bank to Cash ..	Being the amount of cash paid into bank this day.						
7	Cash to Wm. Robinson ..	Being the amount received from him this day.	5			50	0	0
7	Cash to John Smith ..	Being the amount received from him this day.	3			50	0	0
6	Bank to Cash ..	Being the amount of cash paid into bank this day.	7			100	0	0
10	Wages to Cash ..	Being the amount paid to attendant this day, for wages.	7			3	6	8
8	Capital to Bank ..	Being the amount of a cheque drawn for private expenses this day.	6			190	0	0
10	Wages to Cash ..	Being the amount paid to attendant this day, for wages.	7			3	6	8
11	Repairs to Bank ..	Being the amount of a cheque drawn for various repairs on this day.	6			12	16	0
10	Wages to Cash ..	Being the amount paid to attendant this day, for wages.	7			3	6	8
*	Sundries to Rent ..	Being the amount due from various persons for one quarter's rent due this date, viz.:—	12			300	0	0
3	John Smith ..	.. .. .. .. ..				50	0	0
5	Wm. Robinson ..	.. .. .. .. ..				50	0	0
4	Thos. Brown ..	.. .. .. .. ..				125	0	0
13	James Jones ..	.. .. .. .. ..				75	0	0
7	Cash to Jas. Jones ..	Being the amount received from him this day.	13			75	0	0

		£ s d	£ s d
		4 14 0	
11	Repairs to Henry Williams .. Being the amount due to him for repairs, as per his account of this date.	14	
15	Ground Rent to Portland Estate .. Being the amount due to them for one quarter's Ground Rent to this date.	9	6 5 0
16	Depreciation to Property .. Being the amount written off property at this date for depreciation of lease (at 5% interest).	2	105 0 0
8	Capital to Bank .. Being the amount of a cheque drawn for private expenses this day.	6	100 0 0
			<u>£31,718 15 0</u>

It will be noticed that the Continental system requires Journal entries for the outstanding assets and liabilities at the commencement. Upon the English system—after the books have once been opened—this is not required, the balances on the books being merely carried forward. With the Continental system, on the contrary, the books are literally "closed" each time a Balance Sheet is prepared—no balances whatever being left upon the Ledger—and consequently it is necessary for them to be formally "opened" again at the commencement of the subsequent period. It will be necessary to deal more with this question when coming to the closing of the Ledger, and we may therefore pass on now to the posting of the Journal.

The following shows the Ledger Accounts resulting from the transactions already recorded :—

I

Dr.

OPENING BALANCE.

Cr.

1909 April 1	To Sundries..	I	£ s d	1909 April 1	By Sundries..	I	£ s d
			15,270 0 0				15,270 0 0

2

Dr.

PROPERTY ACCOUNT.

Cr.

1909 April 1	To Sundries..	I	£ s d	1909 June 30	By Sundries..	3	£ s d
			14,900 0 0				105 0 0

3

Dr.

JOHN SMITH.

Cr.

1909 April 1	To Sundries..	I	£ s d	1909 April 10	By Sundries..	I	£ s d
June 30	" Do. ..	2	50 0 0				50 0 0

4

Dr.

THOMAS BROWN.

Cr.

1909 April 1	To Sundries..	I	£ s d	1909 April 6	By Sundries..	I	£ s d
June 30	" Do. ..	2	125 0 0				125 0 0

5

Dr.

WILLIAM ROBINSON.

Cr.

1909 April 1	To Sundries..	I	£ s d	1909 April 10	By Sundries..	I	£ s d
June 30	" Do. ..	2	50 0 0				50 0 0

Dr.

BANK ACCOUNT.

Cr.

1909			£	s	d	1909			£	s	d
April 1	To Sundries..	1	120	0	0	May 12	By Sundries..	2	100	0	0
6	" Do. ..	2	140	0	0	June 15	" Do. ..	3	12	16	0
13	" Do. ..	2	100	0	0	30	" Do. ..	3	100	0	0

7

Dr.

CASH ACCOUNT.

Cr.

1909			£	s	d	1909			£	s	d
April 1	To Sundries..	1	25	0	0	April 6	By Sundries..	1	140	0	0
6	" Do. ..	2	125	0	0	13	" Do. ..	2	100	0	0
10	" Do. ..	2	50	0	0	30	" Do. ..	3	3	6	8
June 30	" Do. ..	3	50	0	0	May 30	" Do. ..	3	3	6	8
	" Do. ..	3	75	0	0	June 30	" Do. ..	3	3	6	8

8

Dr.

CAPITAL ACCOUNT.

Cr.

1909			£	s	d	1909			£	s	d
April 30	To Sundries..	2	100	0	0	April 1	By Sundries..	1	15,263	15	0
June 30	" Do. ..	3	100	0	0						

9

Dr.

PORTLAND ESTATE.

Cr.

			1909			£	s	d
			April 1	By Sundries..	1	6	5	0
			June 30	" Do. ..	3	6	5	0

10

Dr.

WAGES ACCOUNT.

Cr.

1909			£	s	d
April 30	To Sundries..	2	3	6	8
May 31	" Do. ..	2	3	6	8
June 30	" Do. ..	2	3	6	8

11

Dr.

REPAIRS ACCOUNT.

Cr.

			£ s d				
1909 June 15	To Sundries..	2	12 16 0				
30	" Do. ..	3	4 14 0				

12

Dr.

RENT ACCOUNT.

Cr.

				1909 June 30	By Sundries..	2	£ s d 300 0 0
--	--	--	--	-----------------	---------------	---	------------------

13

Dr.

JAMES JONES.

Cr.

		£ s d					
1909 June 30	To Sundries..	2	75 0 0	1909 June 30	By Sundries..	3	£ s d 75 0 0

14

Dr.

HENRY WILLIAMS.

Cr.

				1909 June 30	By Sundries..	3	£ s d 4 14 0
--	--	--	--	-----------------	---------------	---	-----------------

15

Dr.

GROUND RENT ACCOUNT.

Cr.

		£ s d					
1909 June 30	To Sundries..	3	6 5 0				

16

Dr.

DEPRECIATION ACCOUNT.

Cr.

		£ s d					
1909 June 30	To Sundries..	3	105 0 0				

It will be noticed that no explanation is added to any of the Ledger entries ; it is not, however, intended that the word "Sundries" be invariably used ; what is meant to be shown is rather that it *may* be used at any time (it is always used where one credit corresponds to several debits, and *vice versa*), and that consequently the Journal is the only sure means of ascertaining any further particulars that may be required.

It will further be noticed that, had the Ledger Account "Opening Balance" been posted in detail, it would have exactly corresponded with the Balance Sheet on 31st March, shown in Chapter III. It is very important that the student should realise this fact quite clearly.

The Trial Balance is the same, in principle, as those already taken out ; but, in consequence of every entry having been passed through the Journal, it follows that the totals of the two first columns of the Trial Balance, in addition to agreeing with each other, will agree with the total of the Journal. This is a very valuable check, as it shows that every item in the Journal has been posted. It will be obvious that the fact of an entry being left *entirely* unposted would still leave the total debits of the Ledger equal to the total credits, but in that case both these totals would be less than the total of the Journal by the amount of the omitted item. Further, in

the event of the Dr. and Cr. columns of the Trial Balance not agreeing, it is possible—by comparison with the Journal—to ascertain *which* is wrong, and so localise the error, and, to a great extent, facilitate its discovery. These checks are undoubtedly very valuable, and form almost the sole advantages of the “Continental” system.

The Trial Balance of the Ledger is given below:—

TRIAL BALANCE, 30th June 1909.

	<i>Dr.</i>	<i>Cr.</i>	<i>Dr. Balance</i>	<i>Cr. Balance</i>
1. Opening Balance ..	£ 15,270 0 0	£ 15,270 0 0	£ ..	£ ..
2. Property Account ..	14,900 0 0	105 0 0	14,795 0 0	..
3. John Smith ..	100 0 0	50 0 0	50 0 0	..
4. Thomas Brown ..	250 0 0	125 0 0	125 0 0	..
5. William Robinson ..	100 0 0	50 0 0	50 0 0	..
6. Bank Account ..	360 0 0	212 16 0	147 4 0	..
7. Cash Account ..	325 0 0	250 0 0	75 0 0	..
8. Capital Account ..	200 0 0	15,263 15 0	..	15,063 15 0
9. Portland Estate ..	..	12 10 0	..	12 10 0
10. Wages Account ..	10 0 0	..	10 0 0	..
11. Repairs Account ..	17 10 0	..	17 10 0	..
12. Rent Account ..	..	300 0 0	..	300 0 0
13. James Jones ..	75 0 0	75 0 0	..	..
14. Henry Williams ..	..	4 14 0	..	4 14 0
15. Ground Rent Account ..	6 5 0	..	6 5 0	..
16. Depreciation Account ..	105 0 0	..	105 0 0	..
	£ 31,718 15 0	£ 31,718 15 0	£ 15,380 19 0	£ 15,380 19 0

QUESTIONS ON CHAPTER V.

1. What is the peculiar characteristic of the "Continental" system?
2. Are there any local circumstances to account for it?
3. What is an Opening Balance Account?
4. What are the principal advantages of the "Continental" system?
5. What are its disadvantages?

VI.—CLOSING THE LEDGER ON THE “CONTINENTAL” SYSTEM.

THE method of closing the Ledger upon the “Continental” system is very similar to that already considered, the main difference being that every entry, as before, passes through the Journal.

The Nominal Accounts are first collected into one account—the Revenue Account—and the balance of this account is then transferred to Capital. The only accounts then left upon the Ledger are those recording assets and liabilities—which are, of course, always equal in amount. These accounts, under the former system, formed the materials of the Balance Sheet; but the actual balances were always brought down on each account ready for the commencement of the next period—thus the books were not, in fact, ever actually closed. Under the “Continental” system the balance of every Real or Personal Account is transferred to an account called “Closing Balance”; the Assets, or Dr. balances, being transferred to the Dr. side of this account, and the Liabilities, or Cr. balances, to the Cr. side. The Dr. and Cr. sides of the Closing Balance will thus be equal in amount, and, consequently, *every account in the Ledger* can be, and is, balanced and

ruled off; the Ledger being actually and literally "closed" every time a Balance Sheet is prepared. When the Ledger has been thus closed, it, of course, becomes necessary to "re-open" at the commencement of the succeeding period.

The Journal entries necessary to close the Ledger are as follow :—

JOURNAL, 1909.

			£ s d	£ s d
12	Rent Account to Revenue Account For Income earned during the quarter, now transferred to Revenue Account.	17	.. ..	31,718 15 0 300 0 0
17	Revenue Account to Sundries For various expenses incurred during the quarter, now transferred to Revenue Account, viz.:— Wages.. Repairs Ground Rent Depreciation .. .. .. .. ..	*	.. ..	138 15 0
17	Revenue Account to Capital Account Being the amount by which the Income for the quarter exceeded the Expenses for the quarter—constituting the net profit of the quarter.	8	.. ..	161 5 0
18	Closing Balance to Sundries As follows, viz.:— Property Account John Smith Thos. Brown William Robinson Bank Account Cash Account .. .. .. .. ..	*	.. ..	15,242 4 0
*	Sundries to Closing Balance As follows, viz.:— Capital Account Portland Estate Henry Williams	18	.. ..	15,242 4 0
8			15,225 0 0	
9			12 10 0	
14			4 14 0	
				£62,803 3 0

A Trial Balance taken out after the posting of these entries would give the same total as that shown above, viz., £62,803 3s.

By this time the attentive student should experience no great difficulty in posting the above entries to their respective Ledger Accounts ; but, in order to remove any possibility of misapprehension, the Ledger Account " Closing Balance " is given below :—

18

Dr.

CLOSING BALANCE.

Cr.

1909 June 30	To Sundries..	4	£ s d	1909 June 30	By Sundries..	5	£ s d
			15,242 4 0				15,242 4 0

It will be seen that, before any transactions for July are recorded, the books must again be " opened," so that the various accounts may record the actual state of affairs. This is accomplished by two Journal entries similar to the first two in our *pro forma* Journal of Chapter V. ; being, in fact, the closing entries reversed.

It will be convenient here to consider the difference between the two methods. Under the " Continental " method, the whole of the transactions pass through the Journal into each side of the Ledger. The profit is arrived at by collecting the various Income and Expenditure (*i.e.*, Nominal) Accounts into one general (Revenue) Account. This profit is then carried to Capital Account, and nothing but Real and Personal Accounts remain open. In order to ascertain the actual state of affairs, these Real and Personal Accounts are collected into one account—the Closing Balance Account—and every account in

the Ledger is ruled off. The agreement of the Closing Balance proves that the stated assets are equal to the stated liabilities and capital taken together ; while any information required concerning the particulars of the various items forming the Closing Balance can be obtained by reference to the Journal entry. The system is very complete, but the labour involved is enormous ; it is, however, desirable that the student should give some attention to the method in order that he may the more clearly understand the English method, which is really nothing but an abbreviation of the "Continental."

To revert to the English method. The method of recording transactions previous to their entry in the Ledger effects a considerable saving upon the "Continental" method, because cash items are not passed through the Journal ; at a later period it will be seen that still further economies may be effected in the preliminary record of the transactions, but whatever the precise method adopted here, the final record in the Ledger will always be practically the same—each transaction being entered once on each side of the Ledger. The transfer of the balances of the Nominal Accounts to the Revenue Account must always be the same, likewise the transfer of the balance of Revenue Account to Capital Account ; it is, however, to be noted that sometimes—with the English method—these transfers are not passed through the Journal, but made direct from the one Ledger

Account to the other. The complete closing of the Ledger (*i.e.*, the transferring of all real and personal balances to a Balance Account) and the subsequent reopening on the following morning is regarded by English bookkeepers as a needless expenditure of time ; the system therefore adopted is to bring each balance forward on its own account, as shown in Chapter III. A very little consideration will show that this process will produce Real and Personal Accounts exactly similar in form to those of the "Continental" system, but that, up to the present, we have not provided any summary of assets and liabilities, or Balance Sheet—a most important omission. It is, however, quite possible to make a summary of these accounts without actually transferring the balances to a Balance Account (we have already done the same sort of thing when taking out the Trial Balance), and such a summary as this is what the English bookkeeper calls his "Balance Sheet."

There are two forms of Balance Sheet in use : one follows the form of the Closing Balance, placing the assets on the Dr. side and the liabilities on the Cr. side ; while the other follows the form of the Opening Balance, in which case the liabilities fall on the Dr. side, and the assets on the Cr. side. It will be remembered that when the books were first opened an Opening Balance was created, as under the "Continental" method ; it therefore appears desirable that—as the *first* Balance Sheet *must* take the form of the Opening Balance—

all subsequent Balance Sheets should be prepared on the same lines. This argument is now very generally conceded; but, as some old-fashioned accounts are still kept the other way, it is necessary that both methods should be mentioned.

It is, however, to be noticed that the English form of Balance Sheet is *not*—after the first—a Ledger Account, and that consequently the terms "Dr. to" and "Cr. by" do not strictly apply, although their use in this connection is by no means infrequent.

What is considered to be the best form for a Balance Sheet on the English system has already been shown at the conclusion of Chapter III.

The student who has intelligently followed thus far should find little difficulty now in recording all ordinary transactions connected with non-trading concerns. The accounts of traders present many difficulties which have not yet been dealt with, and these will claim attention in the succeeding Part.

QUESTIONS ON CHAPTER VI.

1. What is the difference between the "Continental" and the English method of closing the Ledger?
2. Which is the more complete?
3. What is the essential difference between the Balance Sheet prepared upon the two systems?
4. How is it that the assets are not always placed upon the same side of a Balance Sheet?
5. Which side appears to be the most natural?

EXERCISES.

EXERCISE I.

Write up the Cash Book for the following entries :—

January 1 1909, balance in hand at this date, £37 17s.
January 13, paid J. Cummings, £5 10s.; received from T. Jones, £17 5s. 3d. January 15, paid for House Expenses, £2 14s. 6d.; received from F. J. Smith, £14 17s. 6d.; paid for Sundry Expenses, £1 5s.; paid T. Manning, £6 3s. 6d.

Balance the Cash Book and bring down the amount of Cash in hand.

(Answer: Totals, £69 19s. 9d.; balance, £51 6s. 9d., Dr.)

EXERCISE II.

Write up the following transactions in the Petty Cash Book (a Petty Cash Book is a secondary Cash Book used for recording payments of a small amount) :—

March 1 1909, received from cashier for Petty Cash, £10. March 2, paid for Cartage, 18s 6d. March 3, paid for Postage,

3s. 6d. March 5, paid Housekeeper, 2s. 6d. March 6, paid for Repairs to Clock, 10s. 6d.; paid Porter's Wages, £1 5s.; paid Cab-hire for Mr. H., 3s. 6d.

Find the balance in hand and carry down ready for next week's entries.

(Answer : Totals, £10; balance, £6 16s. 6d., *Dr.*)

EXERCISE III.

Write up a Bank Account, recording the following transactions :—

January 1 1909, balance at bank on this day, £4,724 10s. January 3, drew cheque for Sims & Co., £81. January 5, paid in £362 7s. 6d. January 12, paid P. Bright, £70. January 15, William Wright paid into my account £1,347 16s. 8d. January 16, drew cheque for J. Kerr, £868 10s. January 20, paid in £420 17s. 5d. January 23, drew cheque for Poor Rate, £5 3s. 4d. January 26, drew cheque for Jones & Young, £614 15s. January 29, paid in £170. January 31, drew cheque for salaries, £12 10s.

Balance the account, and bring down the balance ready for next month's entries.

(Answer : Totals, £7,025 11s. 7d.; balance, £5,373 13s. 3d., *Dr.*)

EXERCISE IV.

Write up the following Property Account :—

February 10 1909, purchased property in Cecil Street for £1,000. February 20, paid J. Milner, on account of alterations and improvements, £150. March 17, paid J. Milner balance of his account, £350. May 29, sold half this property to Edward Bunting for £600.

On 30th June 1909 the unsold property is valued at £550. Complete the account and bring down the balance.

(Answer : Loss to date, £350 ; balance, £550, *Dr.*)

EXERCISE V.

Write up the following Bank Shares Account :—

July 2 1909, bought this day 100 £10 shares in the North Indian Banking Company, Lim., £2 10s. per share called up, for £240. August 20, paid this day call of £2 10s. per share, £250.

On 30th September the value of the shares stood at £4 10s. per share. Complete the account and bring down the balance.

(Answer : Loss to date, £40 ; balance, £450, *Dr.*)

EXERCISE VI.

Write up the following Capital Account of Thomas Brown:—

October 1 1908, balance of capital this day, £1,067 8s. 4d.
October 31, withdrew £50. December 16, withdrew £50.
December 31, net profit for the quarter, £159 16s. 2d.

Complete the account and bring down the balance.

(Answer: Totals, £1,227 4s. 6d.; balance, £1,127 4s. 6d.,
Cr.)

EXERCISE VII.

Write up the following Capital Account of James Simpson:—

October 1 1908, balance of capital this day, £369 2s. 10d.
October 16, paid in the further sum of £250. November 30,
withdrew £100. December 31, loss on business for the
quarter, £587 16s. 1d.

Complete the account and bring down the balance.

(Answer: Totals, £687 16s. 1d.; balance, £68 13s. 3d., *Dr.*)

EXERCISE VIII.

Write up the following Dividends and Interest Account:—

July 1 1908, received the following dividends: Great
British Banking Co., £11 5s.; South Australian Telephone

Co., £6; Central Gas Co., £12 10s. July 9, paid interest on Mortgage, £26 7s. 6d. Received: August 16, Great Western Water Co., £114 8s. August 31, Northern Water Co., £50.

Close the Account as on 30th September 1908, and transfer the balance to Revenue Account.

(Answer: Totals, £194 3s.; profit to date, £167 15s. 6d.)

EXERCISE IX.

Write up the following Expenses Account, and transfer the balance to Profit and Loss Account, as on the 31st December 1908:—

October 16 1908, paid for Interest, £41 3s. 2d. October 31, paid Trade Expenses, £37 10s.; Salaries, £69 14s. 2d. November 20, incurred Bad Debt for £146 1s. 9d. November 30, paid Trade Expenses, £31 2s. 6d.; Salaries, £69 14s. 2d. December 12, allowed as Discount, £2 16s. 8d. December 31, wrote off Lease, for depreciation, £20; paid Trade Expenses, £27 15s.; Salaries, £51 16s. 8d. On 31st December a further sum of £12 10s. was owing for Trade Expenses.

(Answer: Totals, £510 4s. 1d.; transfer to Profit and Loss Account, £510 4s. 1d.)

EXERCISE X.

Close the books of Henry Jackson on 30th June 1909 (*vide* Chapter IV.), according to the English method.

EXERCISE XI.

Open the same books, as on 1st July 1909, according to the "Continental" method.

EXERCISE XII.

Starting with the position of affairs set forth in the last exercise, record the following further transactions of Henry Jackson, and finally close the books.

[This exercise should be separately worked out according to both the English and the "Continental" methods.]

1909		£	s	d
July 2—Received from William Robinson...	50	0	0	
,, 5—Received from Thomas Brown ...	125	0	0	
,, 12—Received from John Smith ...	50	0	0	
,, ,—Paid into Bank	300	0	0	
,, 15—Paid Portland Estate by ch eque ...	12	10	0	

1909		£	s	d
July 24—Drew Cash from Bank	... ...	25	0	0
„ 31—Paid Wages	... ...	3	6	8
Aug. 10—Let Ground-floor premises to Johnson & Co., as from the half-quarter day, at £800 per annum.				
Aug. 19—Paid Henry Williams	... ...	4	14	0
„ 31—Paid Wages	... ...	3	6	8
Sept. 30— „ „ „	... ...	3	6	8
„ Sent out the following accounts for rent due this day :—				
	£	s	d	
John Smith	... 50	0	0	
William Robinson	50	0	0	
Thomas Brown...	125	0	0	
James Jones	... 75	0	0	
Johnson & Co. ...	100	0	0	
	—————			
		400	0	0
„ Sold Property this day to Henry & Coleman for ... „ ...	15,000	0	0	
„ Received their cheque for same (less proportion of Ground Rent due) „ „ ...	14,993	15	0	

1909		£ s d
Sept. 30—Henry & Coleman took over all Rent now due, and gave their cheque for same (less 5 per cent. discount) ...	... ...	380 0 0
„ Paid into Bank ...	... ...	15,384 1 0

Answer: Balance at Bank, £15,793 15s. 0d.; net profit to date, £568 15s. 0d.; balance of Capital Account, £15,793 15s. 0d., *Cr.*)

VII.—COMMERCIAL TERMS.

NOTE.—*The following are a few of the more common commercial terms that appear to require more explanation than can be conveniently accorded to them in the text of this work. The words in italics after each term are its equivalent in French and in German—the former being given first in each case.*

ACCEPTANCE (*Acceptation* : *Accept*). See under BILL OF EXCHANGE.

ACCOMMODATION BILL (*Effet fictif* : *Kellerwechsel*). A Bill of Exchange for which no *bond fide* consideration has been rendered. The term applied to a Bill that has been either drawn, accepted, or endorsed without value having been received therefor, and for the purpose of lending the name of the drawer, acceptor, or endorser to some other person.

ACCOUNT CURRENT (*Compte courant* : *Laufende Rechnung*). A running account kept open and added to from day to day. When the balance involved is of sufficient importance it is usual to charge interest upon the daily balance, an additional cash column being placed upon each side of the account for that purpose.

ACCOUNT SALES (*Compte de Vente : Rechnung*). An account rendered by an agent, furnishing particulars of sales made from consignments.

ACCOUNTANTS (*Experts Comptables : Bücherrevisoren*). Experts in the science of accounts.

ACTUARIES (*Calculateurs : Registratoren*). Expert calculators, employed in the preparation of insurance tables, etc. etc.

ASSETS (*Masse active : Activa*). Property: in accounts the total of the Dr. balances of the Real and Personal Accounts.

AUDITORS (*Auditeurs des comptes : Auditoren*). Persons appointed to examine accounts and to verify their accuracy.

BALANCE (*Solde : Saldo*). The difference between the Dr. and Cr. sides of an account.

BALANCE SHEET (*Balance : Bilanz*). A statement showing the assets and liabilities of an undertaking on a stated date.

BILL OF EXCHANGE (*Lettre de change : Wechsel*). An unconditional undertaking to pay to a stated person, or his order, or to the bearer, a definite sum, either on demand or at some definite (or determinable) future date.

The following is the usual form of a Bill of Exchange (or Acceptance) :

No. 46.	£780 0 0.	Warrington, 2nd January 1909.
8/- Stamp	Four months after date, pay to the order of Messrs. Sims & Co., London and Westminster Bank, Limited.	
	seven hundred and eighty pounds—Value received.	FOX &
To Messrs. Fox & Crane, London.	Accepted: London and Westminster Bank, Limited.	SIMS & CO.

In the above example Sims & Co. were the creditors, and Fox & Crane the debtors : Sims & Co. treated the Bill as a "BILLS RECEIVABLE," and Fox & Crane as a "BILLS PAYABLE." The Bill was prepared by Sims & Co., who are called the "DRAWERS" (*tireurs : ausstellern*), and addressed to Fox & Crane, who are called the "DRAWEES" (*tirés : bezogenen*). The party in whose name this Bill is made payable is called the "PAYEE" (*preneur : remittent*) ; sometimes, however, a Bill is made payable to "BEARER" (*porteur : inhaber*). A Bill is a "negotiable instrument" ; i.e., it may pass, by NEGOTIATION (*négociation : begebung*), from hand to hand. It is necessary, however, that the payee should sign his name upon the back of the Bill before parting with it : this constitutes an ENDORSEMENT (*endorsement : indosser*) — endorsement by the payee or by any other person will render

him liable for the amount of the Bill, if it be not met upon maturity. A Bill taken up before it becomes due is said to have been RETIRED (*retiré* : *eingelöst*). Bills payable thirty or more days after date are not due for repayment until three days after the expiration of their term : these days are called DAYS OF GRACE (*jours de faveur* : *respecttage*). A Bill payable in this country requires an *ad valorem* stamp.

BILL OF LADING (*Connaissement* : *Konnossement*). A document by which the owner of a ship acknowledges the receipt of goods to be conveyed by the ship.

BULLION (or [*argent*] *en barres* : *Ungemünztes Gold* [*Silber*] , *fremde, ungangbare Münze*). Gold or silver uncoined ; also sometimes applied to foreign coin.

CAPITAL (*capital* : *kapital*). (a) Excess of Assets over Liabilities. (b) The amount of shares a company is authorised to issue—called “Nominal Capital.” (c) The amount of shares issued by a company—called “Subscribed Capital.” (d) The amount paid up on the shares issued by a company—called “Paid-up Capital.”

CAPITAL EXPENDITURE. The amount expended by a company in acquiring or equipping its undertaking. Expenditure for which value remains, as opposed to REVENUE EXPENDITURE, which means the amount expended, or lost, in earning or seeking to earn a Revenue.

CASH Book (*livre de caisse*: *Kassenbuch*). A book used for recording the receipt or payment of money.

CHEQUE (*chèque*: *check*). A bill of exchange, drawn on a banker and payable on demand, for some specified sum. A cheque requires a penny stamp.

C.I.F. An abbreviation of "Cost, Insurance, and Freight."

Commandite, Sociétés en. A company in which only the directors incur unlimited liability.

CONSIGNMENT (*consignation*: *Konsignation*). Goods sent by one person—the CONSIGNOR—(*expéditeur*: *absender*)—to another who is his agent—the CONSIGNEE (*consignataire*: *Konsignatär*)—for sale on commission.

CREDIT-NOTE (*accréditif*: *akkreditiv*). A memorandum correcting an overcharge in an invoice, arising from an error in the quantity, price, or calculation.

DR.—CR.—(*Doit—Avoir*: *Soll—Haben*). Abbreviations of the words "Debtor" and "Creditor" at the head of an account.

DAY Book (a) SALES Book (*livre de ventes*: *verkaufsbuch*). A book recording particulars of goods sold. (b) PURCHASES

Book (*livre d'achats : einkaufsbuch*). A book recording particulars of goods bought.

DEPRECIATION (*dépréciation : abschreibung*). A decrease in value arising from internal causes; the loss arising from such decrease.

DISCOUNT (*escompte : rabatt*). An allowance paid in consideration of the immediate advance of a sum of money due at a future date. To *discount a Bill* is to part with a Bill (Receivable) before it becomes due, allowing discount upon the cash received in its stead.

FIRM (*raison sociale, maison de commerce : firma*). The collective name given to the proprietor or proprietors of a business.

F.O.B. An abbreviation, "Free on board (ship)."

FREIGHT (*fret : fracht*). The cost of forwarding goods by ship.

GOODWILL (*association : gutwill*). The benefit accruing to a business by reason of the support accorded by its customers, which induces the supposition that that support will be continued.

INSURANCE (*assurance : versicherung*). A contract either to indemnify against a loss that may arise upon the happening of some specified event, or to pay on the happening of some

event a certain sum to the person insured. The consideration paid by the insured is called the PREMIUM (*prime*: *prämie*). Insurance may be against fire, death, accident, sickness, fraud, or almost any conceivable contingency.

INTEREST (*intérêt au capital*: *zinsen*). The premium paid by a borrower for the use of money.

INVOICE (*facture*: *faktura*). A memorandum containing particulars as to the description, quantity, and value of goods sold.

JOURNAL (*journal*: *journal*). A book containing, in chronological order, a record of transactions, so arranged as to readily admit of their being posted into the Ledger.

LEDGER (*grand livre*: *hauptbuch*). A book containing, in a classified form, a complete record of transactions. In practice the Ledger is frequently subdivided into several portions (*see postea*).

LIABILITIES (*passif*: *passiva*). Engagements to pay moneys or goods to others. In accounts the total of the *Cr.* balances of the Real and Personal Accounts (usually) excluding the Capital Account.

LIMITED COMPANIES (*Sociétés anonymes*: *Actien-Gesellschaft*). Associations having a corporate character, in which the

liability of the members is limited to a fixed amount prescribed by the Memorandum of Association. An UNLIMITED COMPANY (*société en nom collectif*) is a corporation in which there is no limit to the amount of each member's liability.

PARTNERSHIP (*association : gesellschafts-verhältniss*). "The relation which subsists between persons carrying on a business in common with a view to profit." The liability of partners is unlimited. A LIMITED PARTNERSHIP (*société en commandite : Gesellschaft mit beschränkter Haftung*) is a registered association, the active directors of which alone incur unlimited liability.

PROMISSORY NOTE (*seule de change : solawchsel*). A plain and direct engagement in writing to pay a sum specified at the time therein named to a person therein named, or to his order, or to bearer. The most usual promissory note is one payable to bearer on demand, issued by a bank and called a BANK NOTE (*billet de banque : banknote*).

REBATE An allowance of any kind—often used to signify the discount upon an unmatured Bill.

RESERVE FUND (*réserve : reservefond*). A sum set aside out of profits, either to meet future losses, to equalise dividends, or to increase working capital. The name of an account recording the setting aside of such a sum.

SHARES (*actions* : *actien*). Definite portions of the capital of a company, the capital of which is "divided into shares."

SINKING FUND (*caisse d'amortissement* : *das Tilgungscapital, der Tilgungsfond*). A fund created out of periodical instalments set apart to accumulate, so that at the end of a certain time it may amount to the sum required to meet the purpose of its creation—*e.g.*, the redemption of a loan, or the replenishing of a wasting asset.

SPECIE (*espèces* : *gemünztes*). Coined money—as opposed to Bullion.

WAGES (*salaire* : *arbeitslohn*). Remuneration paid to workers. English bookkeepers distinguish between WAGES (the remuneration of productive workers—charged against Trading Account) and SALARIES (the remuneration of unproductive workers—charged against Profit and Loss Account).

VIII.—ACCOUNTS OF TRADERS.

IT is now proposed to deal with the Accounts of Traders—*i.e.*, those persons whose occupation consists of buying and selling goods.

It will be obvious that the system of accounts described in Part I. will require some modification to adapt it to the altered conditions now introduced, but the student must remember that the fundamental principles of bookkeeping are as unalterable as the laws of the Medes and Persians; the various additional accounts that will now be described are therefore merely developments of the system already discussed, and their introduction is not a matter of vital necessity, but rather one of convenience. Theoretically, it would be quite possible to correctly record every class of transactions by the use of the Journal and Ledger alone; but, in practice, such a course would be found to be extremely inconvenient, on account of the enormous amount of unnecessary labour involved. The objects, then, of the various modifications now about to be described are to economise

the labour of the bookkeeper, and to add to the clearness of the record of the various transactions.

CASH. These accounts, it will be remembered, have hitherto been recorded in—

- (a) The Cash Book, which records the receipt and payment of cash by the proprietor or his cashier.
- (b) The Bank Account in the Ledger, which records the receipt and payment of cash by the proprietor's bankers.

It will be remembered that the entries in the Cash Book are made direct (as the transactions occur), and that the entries in the Bank Account are posted up periodically, the debit side being posted from the credit side of the Cash Book, and the credit side being posted from the Journal. When the transactions are numerous, there are two objections to this mode of record, both of which are of considerable importance. They are as follow :—

- (a) The Bank Account—not being a book of first entry—will not continuously show the balance at the bank.
- (b) The labour of journalising every cheque drawn is considerable.

It will be remembered (*cf. page 45*) that these are the identical reasons that originally led to the introduction of a

separate Cash Book, and the present difficulty has led to the same result: viz., the separation of the Bank Account from the remainder of the Ledger Accounts and its formation into a separate book, into which the various transactions concerning it are entered direct as they occur. Payments by cheque are thus posted direct from the credit of the Bank Book to the debit of the various accounts chargeable with the expenditure, and the necessity for a Journal entry recording such transactions is obviated: on the other hand, the payments from the credit of Cash to the debit of Bank are referenced to and fro in exactly the same way as before.

This system of keeping separate books for Cash and Bank is frequently to be met with in practice. The following example shows the Cash Account and Bank Account of Henry Jackson (*vide* pp. 47 and 50) re-cast upon this principle:—

	Dr.	CASH.	CONTRA.	C/ ^{r.}
1909				
April 1	To Balance .. x	£ s d 25 0 0	1909	£ s d
6	" Thos. Brown 5	125 0 0	April 6	By Bank .. i " Do. .. i
10	" W. Robinson 6	50 0 0	13	140 0 0
12	" J. Smith .. 4	50 0 0	30	100 0 0
June 30	" Jas. Jones .. 7	75 0 0	May 31	" Wages .. ii " Do. .. ii
		£325 0 0	June 30	3 6 8 3 6 8
			" " Balancedown x	75 0 0
1909	July 1 To Balance .. x	75 0 0		£325 0 0

	I	BANK.		CONTRA		Cr.
1909			£ s d	1909		
April 1	To Balance	..	x 120 0 0	May 12	By Capital Account	3 100 0 0
6	" Cash ..	..	x 140 0 0	June 15	" Repairs ..	13 12 16 0
13	" Do. ..	..	x 100 0 0	30	" Capital Account	3 100 0 0
				"	" Balance down	x 147 4 0
			£ 360 0 0			£ 360 0 0
1909	To Balance	..	x 147 4 0			
July 1						

A further modification is, however, frequently thought desirable, it being found inconvenient to keep *two* separate books for Cash and Bank. Double money columns are therefore provided in one Cash Book for the record of both cash and Bank transactions. Under this system, the transactions recorded in the preceding example would appear in the following form :—

BOOKKEEPING.

	Dr.	CASH.	CONTRA.						Bank
			fo.	Cash	Bank	fo.	Cash	Bank	
1909	To Balance	..	..	..	1909	By Bank	..	..	£ s d
April 1	Thos. Brown	..	x 25	0 0	April 6	..	..	..	140 0 0
6	" Cash	..	5 0	0 0	13	Do.	..	..	100 0 0
"	W. Robinson	..	..	..	30	Wages	..	..	3 6 8
10	Ino. Smith	..	6 0	0 0	May 12	..	..	..	100 0 0
12	" Cash	..	4 0	0 0	31	Wages	..	..	3 6 8
13	James Jones	..	..	..	June 15	..	..	..	12 16 0
June 30	"	..	7 0	0 0	30	Repairs	..	..	100 0 0
					"	Capital Account	..	..	3 6 8
					"	Wages	..	..	75 0 0
					3	Balance down	..	..	147 4 0
									£360 0 0
									£325 0 0
July 1	To Balance	..	..	..	75	0 0	147	4 0	

The student should carefully compare the above example with the separate accounts of which it is composed : he will especially notice that the "Cash" and "Bank" columns are in every way as distinct as they were when the two accounts were kept in separate books. The letter "C" in the folio columns (standing for "contra") serves as a reference of the various transfers from the Cash Account to the Bank Account; it is also sometimes used (or the sign "x," as shown in the example) where an account is ruled off, and the balance brought down upon the same page.

BILLS RECEIVABLE. The nature and object of a Bill will have been rendered familiar by the study of the preceding chapter : it now remains to consider the method of recording transactions in bills. It is not proposed, at this stage, to confuse the student with any lengthy comparison of rival methods ; suffice it for the present that the mode now to be described is one very generally in use, but that alternative methods will be fully described in due course.

A Bill Receivable is a bill (either an acceptance or a promissory note) payable by another, or others, that has come into our hands in the course of business. If an acceptance, it may have been drawn by us upon a customer and accepted by him, or it may be that the person from whom we receive it is the drawer, and the acceptor a third party with whom we have no immediate dealings; or again it may be that

both drawer and acceptor are strangers to us. Unless we have ourselves drawn the bill, or unless we are the payees named in the bill, it will not usually have come into our hands until endorsed by every person who has been a holder.

It is usual to keep a special "Bills Receivable Book," in which each bill is entered as received. The form of this book is a matter of the greatest uncertainty, but the following is a usual form, and one that illustrates every principle which it is now desirable to demonstrate:—

BILLS RECEIVABLE.

JANUARY 1909.

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ACCOUNTS OF TRADERS.

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No. of Bill	When Received	From whom Received	Fo.	Amount of Bill	Drawers	Acceptors	Where Payable	Date of Bill	Term	When due												Remarks	
										Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.			
78	1909 Jan. 6	Hugh Forbes	..	14	£ 96 0 0	Stives	H. Forbes	Lloyd's	1909 Jan. 5	2 mos.	..	..	..	..	..	..	..	..	..	..	..	..	..
79	" 11	Joseph Ball	..	10	490 0 0	"	J. Ball ..	National	" 10	3 mos.	..	..	..	..	..	..	..	..	..	..	..	..	..
80	" 20	William Wright ..	12	850 0 0	"	W. Wright	City ..	" 19	3 mos.	..	..	..	..	..	..	..	..	..	..	..	..	..	..
				3	<u>£1436 0 0</u>																		

It will be seen from the above example that, during the month of January 1909, acceptances have been received from Forbes, Ball, and Wright: it is necessary therefore to credit each of these gentlemen with the amount of his bill, which is done by posting that amount from the Bills Receivable Book to the credit of his Personal Account in the Ledger. The bills received are, however, assets, and therefore require to be placed to the debit of a Real Account in the Ledger; as there is nothing to be gained by posting each to a separate account, it is usual to post the *monthly total* to the debit of Bills Receivable Account in the Ledger. The double record of each transaction is therefore now completed: each customer being credited with the Bills Receivable which they have forwarded, and the Bills Receivable (Ledger) Account being debited with the amount of the bills so received.

The entry of £1,436 to the debit of our Bills Receivable Account—standing alone—would imply that there was due to us, upon bills in hand, the sum of £1,436. A reference to the “Remarks” column, will, however, show that Bill No. 79 is no longer in hand—it having been “negotiated” (*i.e.*, it was endorsed and handed over to the Western Steel Co.); it becomes necessary, therefore, to credit Bills Receivable Account with £490, and to debit that amount to the account of the Western Steel Co., who have received the bill.

This leaves a debit balance of £946 on the Bills Receivable Account on 31st January 1909, which agrees with the items not marked off in the "Remarks" column in the Bill Book.

On the 8th March 1909, Bill No. 78 becomes due, and is collected by the bankers: £96 will then be entered in the Bank column of the Cash Book on the debit side. This will be posted to the credit of Bills Receivable Account, and marked off in the "Remarks" column of the Bill Book. The balance of the Bills Receivable Account on the 31st March is thus £850; which, upon reference to the Bill Book, will be found to consist of Bill No. 80—the only bill in hand at that date.

The Ledger Account of Bills Receivable is given below, for the purpose of adding clearness to the above explanation.

Dr.	BILLS RECEIVABLE.*					Cr.
1909 Jan. 31	To Sundries ..	B.B. 26	£ s d 1,436 0 0	1909 Jan. 11	By W. Steel Co. (No. 79) ..	£ s d J.72 490 0 0
			£ 1,436 0 0	" 31	" Balance down	C. 946 0 0
1909 Feb. 1	To Balance down	C.	946 0 0	1909 Mar. 8	By Cash (No. 78)	£ 1,436 0 0
			£ 946 0 0	" 31	" Balance down	C. 96 0 0
1909 Apr. 1	To Balance ..	C.	850 0 0			850 0 0
			£ 946 0 0			£ 946 0 0

* In comparing this account with that appearing on page 144, it should be noted that the discrepancy observable arises from the fact that (for the sake of simplicity) no Bills received prior to 1st January 1909 are included above.

It will be noticed that the entry on January 11th has been passed through the Journal: it will presently be shown that such unusual transactions as the one there recorded are almost the only entries that remain for the once ubiquitous Journal to record.

BILLS PAYABLE are either acceptances drawn upon a trader, or promissory notes signed by him: they are given by him in satisfaction of creditors' claims, and have to be met by him upon maturity. It will be obvious that, under ordinary circumstances, he has no means of knowing who will present his bills for payment when the time comes.

When a bill payable is signed, and before it is issued, it should be entered in the Bills Payable Book of the following (or a similar) form:—

BILLS PAYABLE

JANUARY 1909.

The general treatment of Bills Payable is the converse of the method just described: the amount of Bill No. 46 will be debited to the account of Sims & Co., to whom the Bill has been delivered, and the monthly total of bills issued will be posted to the credit of Bills Payable Account. The credit balance of this latter account, at any time, should correspond with the amount of Bills Payable outstanding, as shown in the Bills Payable Book. As bills mature they are presented at the bank (if they have been made payable at our bankers, as would be the usual practice), for payment; and when paid are entered like cheques on the credit side of the Cash Book in the bank column: thence they are posted to the debit of Bills Payable Account, reducing the balance of Bills Payable outstanding.

There are various other considerations in connection with the treatment of Bills that will require to be dealt with later on.

DISCOUNT. The commercial meaning of the word "discount" has already been defined; it now remains to consider the most convenient manner of recording the allowance or receipt thereof.

When a debtor deducts discount from the amount due, the result, from the creditor's point of view, is a loss. Thus, supposing A. Thompson stands as a debtor for £10 and the

creditor accepts £9 10s. in payment thereof, the remaining 10s. being allowed him as discount (at 5 per cent.), then £9 10s. will be the amount debited in the Cash Book and posted to the credit of Thompson's account. This leaves a debit balance of 10s. still standing on Thompson's account—which is wrong, for he owes nothing—and we shall have omitted to record the fact that, in allowing Thompson to deduct £5 per cent. discount, the creditor made a loss of 10s. To put this right it is necessary to open a nominal account called Discounts Account ; debit that account with 10s., and credit Thompson's account with the same amount.

When discount is deducted from a creditor's account a profit is made ; the process, therefore, is to debit the creditor's Ledger Account, and credit Discounts Account, with the amount so deducted.

The precise means adopted to secure the entry of discounts allowed and received against the proper Ledger Accounts is a matter of detail merely : if the occasion arises but rarely, a special Journal entry in each instance will meet the case sufficiently well ; but where, as is frequently the case, the great majority of the payments and receipts are subjected to some deduction for discount, the method is obviously too cumbersome to be practicable. A special column upon each side of the Cash Book is therefore provided in which is inserted the amount of discount that has been deducted, the

cash and bank columns containing (as before) the amount actually received or paid: at the end of each month the discount columns are totalled—the total on the debit side (which consists of discounts allowed to debtors, which have been posted to the credit of their respective accounts) is inserted in the discount column on the credit side, and thence posted to the debit of Discounts Account. Conversely, the total of the credit side (which consists of discounts allowed by creditors, which have been debited to their respective accounts) is inserted in the discount column on the debit side, and thence posted to the credit of the Discounts Account. The balance of the Discounts Account (like that of every other Nominal Account) is eventually transferred to Profit and Loss Account.

In order that this matter of discounts may be quite clear to the student, the following example is appended to show what the effect of giving and allowing 5 per cent. discount would have been upon the transactions of Henry Jackson during the quarter ended 30th June 1909:—

ACCOUNTS OF TRADERS.

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Dr.	CASH.	CONTRA.						Cr.		
		Fo.	Discounts	Cash	Bank	Fo.	Discounts	Cash	Bank	
1900 April 1	To Balance	£ 25 0	£ 25 0	£ 120 0	£ 120 0	1900 April 6	By Bank	..	£ 140 0	
6	" Thos. Brown ..	6 5 0	6 5 0	118 15 0	118 15 0	13	" Do.	..	90 0 0	
"	" Cash ..	..	..	..	..	30	" Wages ..	..	3 6 8	
10	" Wm. Robinson ..	6 10 0	47 10 0	140 0 0	140 0 0	May 12	" Capital Ac-	..		
12	" Jno. Smith ..	2 10 0	47 10 0	..	..	" count ..	..	3		
13	" Cash ..	..	..	90 0 0	90 0 0	31	" Wages ..	..	..
June 30	" James Jones ..	3 15 0	71 5 0	..	..	June 15	" Repairs ..	..	3 6 8	
				..	..	30	" Capital Ac-	..	..
				..	..	" count ..	..	3		
				..	..	" Wages ..	..	..
				"		
"	Discounts received ..	15 0 0	15 0 0	..	..	"	Discounts allowed ..	..	0 12 10	
		15 0 0	15 0 0	..	..	"	Balance down ..	..	15 0 0	
		£ 15 12 10	£ 310 0 0	£ 350 0 0	£ 350 0 0				£ 15 12 10	
1900 July 1	To Balance down ..	C. ..	..	70 0 0	137 16 10				£ 310 0 0	£ 350 0 0

It will be seen that the Cash and Bank balances together amount to £207 16s. 10d., as against £222 4s. when no discounts were allowed or taken ; the difference (£14 7s. 2d.) is expressed as a balance to be carried to the debit of Profit and Loss from Discounts Account, which the following example shows to be the case :—

15			DISCOUNTS ACCOUNT.			15		
Dr.						Cr.		
1909 June 30	To Sundries ..	c 1	£ s d 15 0 0	1909 June 30	By Sundries .. " Profit and Loss Ac- count ..	c 1	£ s d 0 12 10	
			£15 0 0			16	14 7 2	£15 0 0

In practice, however, it is usually considered preferable to carry the total loss on Discounts to the debit of Profit and Loss, and the total profit thereon to the credit, so that the Profit and Loss Account may show the full particulars.

It is not anticipated that the student will experience any difficulty with the treatment of discounts upon Bills, but, to save misapprehension, the question will be noted as it arises.

PARTNERSHIP ACCOUNTS. Hitherto, for the sake of simplicity, only the accounts of persons carrying on business alone—*i.e.*, without partners—have been dealt with ; it is now desirable that the student should become acquainted with the

modifications required in the books when the business belongs to a number of partners or a "firm."

In the previous chapter a definition of a partnership has been given; it may, therefore, be assumed that the student is acquainted with the circumstances of the case, and his attention will therefore be confined to the explanation of the entries required to give effect to these altered circumstances.

First, take the case of a trader A., who takes into partnership B., who pays £1,000 for a half-share of profits, and agrees to put another £1,000 into the business. The first £1,000, of course, goes straight into A.'s pocket, and does not require any entry in the firm's books; if, however, it is paid into the firm's banking account, it will be entered on the debit side of the Cash Book in the bank column and posted to the credit of A.'s Capital Account. The second £1,000 is entered in a similar manner in the Cash Book and posted to the credit of B.'s Capital Account. It will thus be seen that a separate Capital Account is required for each partner, and it may be added that each partner's Capital Account is debited with his drawings, and that the credit balance of the Revenue or Profit and Loss Account (*i.e.*, the Net Profit) will be posted to the credit of the partners' respective Capital Accounts in the proportions previously arranged, or—if no arrangement has been made—in equal shares. A debit balance of Profit and Loss Account (*i.e.*, a Loss) must be debited to the partners'

Capital Accounts in the same proportions as profits would have been divided, had any been made.

In order to make these transactions quite clear the following example is given. Suppose that A.'s Balance Sheet on the 31st December 1908 was as follows :—

BALANCE SHEET, 31st December 1908.

<i>Liabilities.</i>				<i>Assets.</i>			
	<i>£</i>	<i>s</i>	<i>d</i>		<i>£</i>	<i>s</i>	<i>d</i>
A., Capital Account ..	..	950	0	Stock-in-hand ..	..	1,500	0
Sundry Creditors ..	..	1,250	0	Sundry Debtors ..	..	650	0
	<u>£2,200</u>	0	0	Cash at Bank ..	..	50	0
						<u>£2,200</u>	0

and that B. joins him in partnership, as from the 1st January 1909, upon the terms named, and that A. pays into the firm's banking account the £1,000 received by him for goodwill. Then the position of the firm will be as follows :—

BALANCE SHEET, 1st January 1909.

<i>Liabilities.</i>				<i>Assets.</i>			
	<i>£</i>	<i>s</i>	<i>d</i>		<i>£</i>	<i>s</i>	<i>d</i>
A., Capital Account ..	..	1,950	0	Stock-in-hand ..	..	1,500	0
B., Capital Account ..	..	1,000	0	Sundry Debtors ..	..	650	0
Sundry Creditors ..	..	1,250	0	Cash at Bank ..	..	2,050	0
	<u>£4,200</u>	0	0			<u>£4,200</u>	0

There is another way of looking at this transaction : If A. is willing to take £1,000 for a half-share in his business, this

is the same as saying that he considers the Goodwill of his business worth £2,000, and that, if B. will contribute half the value of the Goodwill and £1,000 as working capital, he will admit him into partnership upon equal terms. This is the principle sometimes adopted in framing the accounts, and where it is so done the entries would be as follow: Debit Goodwill Account and credit A. Capital Account with the value of the Goodwill; and debit Bank Account and credit B. Capital Account with the *whole* amount paid by B.

Where this method is adopted our two Balance Sheets will assume the following form:—

BALANCE SHEET, 31st December 1908.

<i>Liabilities.</i>		<i>Assets.</i>
A., Capital Account ..	£ 2,950	£ 1,500
Sundry Creditors ..	1,250	2,000
	<hr/>	<hr/>
	£4,200	£4,200
	<hr/>	<hr/>

BALANCE SHEET, 1st January 1909.

<i>Liabilities.</i>		<i>Assets.</i>
A., Capital Account ..	£ 2,950	£ 1,500
B., Capital Account ..	2,000	2,000
Sundry Creditors ..	1,250	650
	<hr/>	<hr/>
	£6,200	£6,200
	<hr/>	<hr/>

A comparison of these four Balance Sheets will be found a most profitable occupation for the student.

Now, suppose it be decided to amalgamate the business of A. and B. with that of C., whose Balance Sheet (including value of Goodwill) is approved at the following figures :—

BALANCE SHEET, 1st January 1909.

<i>Liabilities.</i>			<i>Assets.</i>		
	£	s d		£	s d
C., Capital Account ..	..	2,750	Stock-in-hand ..	..	1,200 0 0
Sundry Creditors ..	..	750	Goodwill Account ..	..	1,500 0 0
Overdraft at Bank ..	..	500	Sundry Debtors..	..	1,300 0 0
		<u>£4,000 0 0</u>			<u>£4,000 0 0</u>

The Balance Sheet of the firm A., B., and C. will then be as follows :—

BALANCE SHEET, 1st January 1909.

<i>Liabilities.</i>			<i>Assets.</i>		
	£	s d		£	s d
A., Capital Account ..	..	2,950	Stock-in-hand ..	..	2,700 0 0
B., Capital Account ..	..	2,000	Goodwill Account ..	..	3,500 0 0
C., Capital Account ..	..	2,750	Sundry Debtors..	..	1,950 0 0
Sundry Creditors ..	..	2,000	Cash at Bank ..	..	1,550 0 0
		<u>£9,700 0 0</u>			<u>£9,700 0 0</u>

Where new books are to be started by the firm, the opening entries will be upon exactly the same lines as those indicated upon pages 57 to 59 ; separate Journal entries being made for the assets and liabilities of each partner, but only one Opening Balance Account (identical with the last preceding Balance Sheet) being employed.

The process to be adopted where the old books are continued, and the detailed treatment of the various trade accounts, will occupy our attention at a later stage.

PARTNERS' DRAWINGS. In practice it is usually found convenient to open a distinct account for the drawings of each partner. This account will at each periodical balancing be transferred to a "Current Account" opened in the name of the partner, which will also be credited with his share of profits, and with any interest upon capital to which he may be entitled; whatever balance may be shown on the Current Account at the closing of the books is brought forward in the ordinary way. If, however, it is provided by the terms of the partnership that all profits in excess of a certain amount are to be left in as capital, the amount of any such surplus profit must be transferred from Current Account to the credit of Capital Account; or the Current Account may be suppressed altogether, and the balance of each partner's Drawings Account, together with his share of profits and interest on capital, may be transferred direct to his Capital Account. (*cf. page 144*).

QUESTIONS ON CHAPTER VIII.

1. What are the advantages of a double-column Cash Book?
2. Describe the mode of entering discounts in the Cash Book, and trace the system to both sides of the Ledger.
3. How would you record the receipt of a Bill Receivable, and its payment upon maturity?
4. How would you record the issuing of a Bill Payable, and its payment upon maturity?
5. What do the balances of the Bills Receivable and Bills Payable Accounts in the Ledger show respectively?
6. Describe the opening entries in the books of a firm.
7. What is the advantage of a separate Drawings Account?
8. How is it kept, and what does the balance signify upon each side?

IX.—ACCOUNTS OF TRADERS (*continued*).

NEXT comes the consideration of these accounts that specially characterise the affairs of traders—the accounts relating to the sale and purchase of goods. These accounts are focussed into one account, variously described as “Goods Account,” “Trading Account,” and “Stock Account,” and it will be in keeping with the general scheme of the present work to consider the nature of this account first, and then proceed to trace the various items to their respective sources.

It will facilitate the student's comprehension of the Trading Account if he considers it first as an account relating to *quantities* of goods only—disregarding for the moment the money value of such goods. The general scheme of the account is that it is debited with all goods received (*i.e.*, with all purchases), and credited with all goods sent out (*i.e.*, with all sales), the debit balance at any time representing the amount of goods in hand, or “Stock.” It will be seen that this is exactly the same principle that governed the

treatment of the Cash Account, and the student will find it a help to look upon the Trading Account as an account kept by the proprietor as a tally upon a stock-keeper in whose charge the goods are supposed to be.

To take the case of an iron merchant: his stock on the 1st January 1909 may be supposed to have been 1,584 tons 12 cwt., his purchases for the month 467 tons 3 cwt. 1 qr., and his sales 591 tons 0 cwt. 2 qrs., leaving a stock on hand of 1,460 tons 14 cwt. 3 qrs. on the 31st January. The Trading Account will then assume the following form:—

Dr.	TRADING ACCOUNT.	Cr.
1909 Jan. 1 To Stock on hand T. Cwt. Qr. 31 " Purchases for 1,584 12 0 the Month .. 467 3 1 <hr/> 2,051 15 1	1909 Jan. 31 By Sales for the T. Cwt. Qr. Month 591 0 2 " Stock on hand 1,460 14 3 <hr/> 2,051 15 1	
Feb. 1 To Stock on hand T. Cwt. Qr.		

Had any of the goods purchased been returned, they would have been placed to the credit of this account; and, conversely, had any of the sales been returned to the merchant, he would have debited this account with the amount so received by him. In practice, such an account as the above would never quite balance, on account of waste and

inaccuracies in weights; but this consideration need not now be considered.

Now, it will be obvious that this account cannot be incorporated into the financial books without putting a money equivalent upon the various items; for the sake of simplicity let us suppose that the merchant purchases at a uniform price of 95s. per ton, and sells at a uniform price of 100s. per ton, then—putting these sterling equivalents against the various items in our account—we arrive at the following result:—

		TRADING ACCOUNT.														
1909		T.	Cwt	Qr	£	s	d	1909		T.	Cwt	Qr	£	s	d	
Jan. 1	To Stock on hand .	1,584	12	0	7,526	17	0	Jan. 31	By Sales for the month	591	0	2	2,955	2	6	
3 ^r	" Purchases for the month .	467	3	1	2,219	0	5	"	" Stock on hand..	1,460	14	3	6,938	10	0	

It will be seen that this account shows a credit balance of £147 15s. 1d., and a little reflection will suffice to show that the reason for this discrepancy is that the sales have been extended at £5 per ton, and the other figures at 95s. per ton—the difference, viz., 591 tons 0 cwt. 2 qrs. at 5s. per ton amounting to £147 15s. 1d., being the amount of the credit balance. Now this amount represents the 5s. per ton profit on the month's sales, or, in other words, the profit on the sales for the month. It being a profit, the proper course is to carry it to the credit of Profit and Loss Account. Therefore

debit Trading Account and credit Profit and Loss Account with £147 15s. 1d. The Trading Account can now be balanced and the position is as follows :—

	Dr.	TRADING ACCOUNT.				Cr.									
1909		T.	Cwt	Qr	£	s	d	1909		T.	Cwt	Qr	£	s	d
Jan. 1	To Stock on hand ..	1,584	12	0	7,526	17	0	Jan. 31	By Sales for the m'th	591	0	2	2,955	2	6
31	" Purchases for the month ..	467	3	1	2,219	0	5	" "	Stock on hand ..	1,460	14	3	6,938	10	0
"	" Profit and Loss A/c. (Profit on Sales for the m'th)	..			147	15	1								
		2,051	15	1	<u>£9,893 12 6</u>					2,051	15	1	<u>£9,893 12 6</u>		
Feb. 1	To Stock on hand ..	1,460	14	3	6,938	10	0								

Dr.	PROFIT AND LOSS ACCOUNT.	Cr.
	1909 Jan. 31 By Trading Account	£ s d 147 15 1

The reader will now notice a distinguishing feature peculiar to the Trading Account: *At rest* (*i.e.*, when balanced off) the Trading Account is a Real Account, the balance representing the value of stock on hand; but *in motion* (*i.e.*, while the account is kept open for the record of further transactions) the Trading Account is a Composite Account—partly Real, and partly Nominal—the balance representing nothing definite, but being compounded of the value of the stock and the profit earned on the sales.

In such a case as the above, where the profit upon every separate sale can be actually determined, it would have been possible to credit Profit and Loss Account with the amount of such profit at once, carrying only the cost price of the articles sold to the credit of the Trading Account; but such ideally simple cases would not be found in actual practice, and in any event the number of entries involved would be greater than by the above method.

To those who are familiar with the use of mathematical formulæ, the following equations will make the position even clearer than the preceding concrete example:—

Suppose S = value of stock at commencement, S^1 = value of stock at close, P = value of purchases, C = cost price of sales, T = profit on sales, and V = the amount of the sales.

Then

$$V = C + T, \text{ and}$$

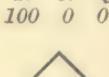
$$S + P = C + S^1, \text{ therefore}$$

$$S + P + T = C + S^1 + T = V + S^1.$$

We therefore see that, even when C and T are unknown, their value may be deduced from the known values of S , P , V , and S^1 . Hence it becomes important for every trader to periodically ascertain the value of S , S^1 (his stock in hand). In practice, it is frequently not feasible to arrive at this by

keeping an accurate account of the stock in quantities (*vide* the example on page 144), on account of the number of different articles, and qualities of articles, in which the trader deals, and it therefore becomes necessary for the value of the stock to be ascertained by actual inspection and inventory. The total purchases and total sales will, however, always be shown by the books.

Purchases. Goods purchased would ordinarily be accompanied by an invoice (or, if not actually accompanied by an invoice, the latter would be received by post practically simultaneously), of which the following may be cited as a typical example:—

Messrs. Fox & Crane.	To Sims & Co.	Excelsior Works, Warrington,
		2nd January 1909.
T. G. Q.		
100 0 0		
No. 492. Angles.	£8	£ s d
	Less 2½% @ 4 months.	800 0 0
	<u>Acceptance enclosed</u> <u>per L. & N. W. Ry.</u>	<u>£780 0 0</u>

As the goods are received they are compared with the invoice as to weight, description, and price; and, if correct, passed on to the counting-house for entry. If incorrect, a corrected invoice is applied for and substituted for the original invoice,

or a supplementary invoice or credit note is forwarded and the original invoice left to stand. A credit note is usually printed in red ink to distinguish it from an invoice.

It is no part of the scheme of this work to discuss the relative methods of dealing with invoices ; let it, therefore, suffice to say that, after being entered in the Purchase Book (also called Bought Book, Invoice Book, Bought Journal, Purchase Journal), they are numbered and arranged so that they can readily be referred to, should occasion arise.

The following is a typical form of Purchase Book. It may be entered up from day to day or at the end of the month, as is considered expedient :—

PURCHASES for the Month of *January 1909.*

Weight T. 100	No. of Inv 1	Name Sims & Co.	£ 15	Total 800 0 0	Angles 800 0 0	Bars	Fish- plates	Rivets £ s d	Sleep'rs £ s d
C. 0 12 0	O. 0	Percy Bright	2 17	13 4 0	..	..	..	13 4 0	..
Q. 0 0 0	1	Western Steel Co.	18	300 0 0	..	..	..	..	300 0 0
140	12 0			1,113 4 0	800 0 0	..	..	13 4 0	300 0 0
								<i>Fo. 5</i>	
									<i>Fo. 8</i>
									<i>Fo. 9</i>

The student who has read thus far will hardly need to be reminded that each purchase has to be debited to the Trading Account (as having been received by the store-keeper) and credited to the Personal Account of the person

from whom it was bought. In the above example, therefore, it is necessary to post £800 to the credit of Sims & Co., £13 4s. to the credit of Percy Bright, and £300 to the credit of the Western Steel Company ; these several amounts will require to be debited to the Trading Account, but it will answer every purpose equally well to post the total of £1,113 4s. instead of the various items, and by so doing a considerable amount of unnecessary labour is saved.

In many businesses it is thought desirable to divide the transactions into " Departments," so that it may be possible to ascertain the profit resulting from the sale of each different class of goods dealt in ; in the foregoing example the Purchase Book is arranged so that the transactions in " Angles," " Bars," " Fish-Plates," " Rivets," and " Sleepers," may be separately recorded. In such a case, instead of debiting one Trading Account with the month's total purchases, it is necessary to open five separate Trading Accounts, one for each department, and the total of each departmental column will require to be debited to its proper Trading Account.

The full working out of this system will be shown in detail in the following chapter.

Sales. As with purchases, so with sales, there are many different methods of dealing with the initial record. In every case, however, a detailed invoice will have to be supplied to the debtor, of a similar nature to that which is received when

goods are purchased, as shown above. Sometimes the Day Book, in which the sales are daily recorded, will contain a facsimile of the invoice sent out; but a more convenient method seems to be to take a press copy of the invoice and enter the sale in the Day Book in a summarised form. Where this is done the same book can be used for the purpose of analysing the sales into departments as follows:—

SALES for the Month of January 1909.

Weight T. C. Q.	No. of Inv	Name	Fo.	Total	Angles	Bars	Fish- plates	Rivets	Sleep'rs
				£ s d	£ s d	£ s d	£ s d	£ s d	£ s d
20 0 0	1	<i>Henry Dale</i>	13	180 0 0	..	180 0 0			
12 0 0	2	<i>Hugh Forbes</i>	14	96 0 0	..	..	96 0 0		
0 10 0	3	<i>Hugh Forbes</i>	14	1215 0	..	..	..	12 15 0	
100 0 0	4	<i>William Wright</i>	12	850 0 0	..	850 0 0			
132 19 0				1,138 15 0	..	1,030 0 0	96 0 0	12 15 0	
							Fo. 6	Fo. 7	Fo. 8

The items in the Sales Day Book are posted to the debit of the various customers to whom goods are supplied, and the monthly departmental totals are posted to the credit of the various departmental Trading Accounts.

Returns received back from customers, as also overcharges, are acknowledged by "credit notes" of a form similar to the original invoices, but printed in red ink. They are usually entered in a separate "Sales Return Book," ruled like the

Sales Day Book, which is posted like the Purchase Book; but occasionally they are entered in the Sales Book *in red ink*, being subtracted in the additions of the various columns, which practically produces the same effect. The latter plan is not often adopted, however, except where the occurrence of a return or an overcharge is a very uncommon one.

Before leaving the question of the treatment of Purchases and Sales, it will be convenient to notice two important modifications that are frequently to be found in the method that has been described.

First, it is a common thing to find a separate Sales Day Book in each "department" of a business; and in such cases there is no longer any necessity for these books to be provided with analytical columns. Again, it is not unusual to find Day Books duplicated, so that they may be used on alternate days —one being in use in the entering room, while the other is being posted up in the counting-house; in large businesses, this duplication of subsidiary books becomes a matter of necessity, as well as convenience.

Secondly, it not being usual to prepare a Balance Sheet at the end of each month, it is found in practice to be inconvenient to post the monthly totals of the Purchase Book and Sales Day Book direct to Trading Account. These totals are, therefore, respectively posted to "Purchases Account" and "Sales Account," and thence transferred to Trading Account when the books are closed.

Consignments will be best dealt with as they arise in the course of the succeeding examples, but a few general points will not be out of place in the present chapter.

When a merchant sends out a consignment, what he really does is to transfer a portion of his stock-in-trade to the temporary custody of the consignee, who has instructions to sell it upon such terms as may have been arranged, and to remit the proceeds. He, therefore, credits his general Trading Account with the value of the consignment, and debits a particular Trading Account (distinguished as “‘A’ Consignment Account”) with a corresponding sum ; freight, insurance duty, and other expenses incurred on the venture are likewise debited to this account—as increasing the total cost of the consignment—and the proceeds are credited, as and when received from the consignee. When the consignment is all sold, the remittances received, and the expenses charged up, the Consignment Account becomes a Nominal Account—*i.e.*, if it shows a credit balance, there is a profit to be carried to the credit of Profit and Loss Account ; while, if it shows a debit balance, there is a loss to be carried to the debit of Profit and Loss Account. A better (but perhaps less usual) plan is to credit the Consignment Account, and debit a Personal Account in the name of the consignee with the *gross* proceeds ; debit Consignment Account and credit consignee with his expenses ; and debit cash (or Bills Receivable) and

credit consignee with his remittance. So framed the Consignment Account shows all the material facts, and is more useful for future reference.

From the point of view of the consignee, the problem may be conveniently dealt with as follows:—

Upon the receipt of the goods he opens two accounts—one “Consignment from M. Account,” to which he debits the value of the goods received, the other “‘M.’ (Consignment) Account,” which he credits with a like sum. The former account he keeps as a pure Goods Account, crediting sales as contracted until the whole consignment is sold; if the consignment has realised a profit, this account will show a credit balance which must be transferred to the credit of the second account; and, conversely, if there has been a loss, it will be shown as a debit balance on the first account, and must be transferred to the debit of the second account. The second account will have been debited with any expenses incurred by the consignee, his commission, and such remittances as may have been made; interest will be provided for, and the balance of this account will show the amount due to the consignor to close the account.

Some bookkeepers prefer to keep the whole matter in one account, instead of two; but it is thought that the method explained above is clearer, and equally concise.

QUESTIONS ON CHAPTER IX.

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1. What is a Trading Account, what items appear upon each side, and what does the balance represent?
 2. How may the profit on sales be deduced from the Trading Account?
 3. Is the Trading Account a Real or a Nominal Account?
 4. What is the object of Departmental Trading Accounts?
 5. How is the Purchase Book posted?
 6. How is the Sales Book posted?
 7. How would you record a consignment sent out by a merchant?
 8. How would you record the same in the books of the consignee?

X.—TRANSACTIONS OF FOX & CRANE.

Opening the Ledger—The Subsidiary Books.

HAVING now disposed of a few of the leading difficulties connected with Traders' Accounts, it is well to proceed from theory to practice, and show how an ordinary example of transactions should be dealt with in the books of a trading firm.

For the purpose of giving a more definite interest to this and the following chapter, the example that has been selected has been taken from an examination paper set a few years ago by the Society of Arts; but it is only fair to add that this paper has been somewhat modified, to provide scope for the introduction of Departmental Trading Accounts.

The example is as follows :—

Henry Fox, iron merchant, at January 1st 1893, had a balance at his bankers of £1,724 10s., and cash in office £85 16s. 4d.

His bills in hand amounted to £704 7s. 6d., being acceptances No. 74, £186 17s. 6d.; No. 76, £800; and No. 77, £217 10s.

Debts owing to him on open accounts were, by Joseph Ball, £58 19s.; Thomas King, £275 18s. 4d.; William Wright, £285 9s. 9d.; and Henry Dale, £178 10s.

He had also goods on consignment with Henry Poole, Smyrna, of the cost value of £680.

His freehold business premises were valued at that date at £1,740.

His Stock-in-Trade was as follows:—

tons cwt. qr.		£	s	d
50 0 0	Angles @ £8 ..	..	..	400 0 0
200 0 0	Bars at £7 15s.	..	..	1,550 0 0
20 0 0	Fish-plates @ £7 10s.	..	..	150 0 0
1 4 1	Rivets @ £22..	..	..	26 13 6
100 0 0	Sleepers @ £7 10s.	..	..	750 0 0
371 4 1				£2,876 13 6

He had given acceptances, which were then current, as follows:—
No. 43, £281 10s.; No. 44, £250; No. 45, £140 16s. 8d.

He owed on open accounts, to Sims & Co., £85 1s. 6d.; Jones & Young, £41 17s.; Percy Bright, £60; and John Kerr, £102 5s. 6d. Find and credit his capital.

For the purpose of recording these transactions, it is desirable to make use of the following books:—

Cash Book.

Sales Book.

[Sales Return Book—not required in this case].

Purchase Book.

Purchase Returns Book.

Journal.

Bills Receivable Book.

Bills Payable Book.

Ledger.

It not being the purpose of the present work to show the precise points in which convenience requires that the accounts of iron merchants should *differ* from those of ordinary traders, this example will be dealt with upon strictly general lines; but the student will hardly require to be told that the accounts of each different class of traders present (in practice) more or less important modifications in detail (*vide* page 3).

As regards the opening of the Ledger, there are two methods in general use:—

- (a) To make the opening entries in the Journal (*vide* page 57), and post thence to the various Ledger Accounts.
- (b) To make the opening entries in the Ledger direct, without the intervention of the Journal.

Having already described the former mode, we will now show how the latter may be effected; but it may be added that this latter method is not viewed with any particular favour.

First, then, proceed to construct a Balance Sheet as on the 1st January 1909, thus:—

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<i>Dr.</i>	BALANCE SHEET.			<i>Cr.</i>
1909 Jan. 1 To H. Fox (capital)	£ 7,648 13 9			
" " Sims & Co. ..	125 85 1 6			
" " Jones & Young ..	126 41 17 0			
" " Percy Bright..	127 60 0 0			
" " John Kerr ..	129 102 5 6			
" " Bills payable..	14 672 6 8			
	£ 8,610 4 5			
1909 Jan. 1 By Freehold				
	Premises	120	1,740 0 0	
" " Stock-in-Trade, viz.:— £ s d				
	Angles .. 400 0 0	15		
	Bars .. 1,550 0 0	16		
	Fish-plates 150 0 0	17		
	Rivets .. 26 13 6	18		
	Sleepers 750 0 0	19		
			2,876 13 6	
" By Consignment at				
	Smyrna .. 121 680 0 0			
" " Joseph Ball .. 120 58 19 0				
" " Thomas King .. 121 275 18 4				
" " William Wright .. 122 285 9 9				
" " Henry Dale .. 123 178 10 0				
" " Bills receivable .. 12 704 7 6				
" " Cash at Bank .. c1 1,724 10 0				
" " Cash in hand .. c1 85 16 4				
	£ 8,610 4 5			

Then open Ledger Accounts for each item named therein (except cash at bank and cash in hand), and credit all accounts debited to Balance Sheet, and *vice versa*; the cash at bank and in hand are debited in the Cash Book, no Ledger Accounts being required for these two amounts. The folios shown in the Balance Sheet are the folios of the various accounts—these accounts will all show the folio of the Balance Sheet (folio 24).

It will be seen that the effect of these cross entries is to debit the Ledger (which, of course, includes the Cash Book) with £17,220 8s. 10d., and to credit it with a like sum, so that a Trial Balance taken out at this period would show the Dr. and Cr. sides balancing. It is not, of course, necessary to

take out a Trial Balance at this period ; but, as there are not any further entries to be made in the Balance Sheet, it is as well to rule off that account as shown in the example.

It has not been thought necessary to show the opening of each Ledger Account ; but, if the student should feel any doubt upon this subject, let him refer to the full Ledger in the following chapter.

To proceed with the example, the transactions are as follow :—

1. On the 1st January Henry Fox admitted as partner Joseph Crane, who paid into the Bank Account £3,000 as his capital, to receive, in accordance with the deed of partnership, one-fourth of the profits, Henry Fox guaranteeing the debts then owing to the concern, and reserving a preferential claim to the extent of £50 on the first month's profit in respect of business previously done.

			£	s	d
2 & 3.	Jan. 2	Bought of Sims & Co. for 4 months' bill 100 tons angles at £8 (at $2\frac{1}{2}$ per cent.)	800	0	0
4.	3	Paid them cheque	81	0	0
		They allowed discount	4	1	6
5.		Sold Henry Dale for prompt cash,* less $2\frac{1}{2}$ per cent., 20 tons bars at £9 ..	180	0	0
6.	5	Received payment of bill No. 74.. ..	186	17	6
7.		Sold Hugh Forbes for 2 months' bill, 12 tons fish-plates at £8	96	0	0

* This is a technical term, signifying that $2\frac{1}{2}\%$ discount will be allowed if the account is paid on or before a specified date in the near future.

			£ s d
8.	Jan. 6	Shipped on consignment to Henry Poole, Smyrna, 80 tons angles at £8	640 0 0
9.		Paid freight, insurance, and charges thereon	56 9
10.		Debited Sims & Co. for short delivery angles, 1 ton 15 cwt. at cost	13 13 0
11.	6	Paid wages	4 5 0
12.	8	Paid fire insurance on office and warehouse	3 5 0
13.		Received payment bill No. 77, due this day	217 10 0
14 & 15.	10	Sold on commission at 2s. 6d. per ton for the Western Steel Co. to Joseph Ball, 70 tons steel rails at £7 per ton on 3 months' acceptance	490 0 0
16.	11	Endorsed and forwarded acceptance to Western Steel Co.	
17.		Debited them with commission	8 15 0
18.	12	Bought of Percy Bright, 12 cwt. rivets at 22/-	13 4 0
19.		Paid him	70 0 0
		Discount allowed	3 4 0
20.	13	Sold Hugh Forbes 10 cwt. rivets at 25s. 6d. for net cash at 1 month	12 15 0
21.		Paid wages	4 5 0
22.	15	Received of Hy. Poole, Smyrna, account sales and sight draft	750 6 8
23.		Received of William Wright, cheque ..	280 0 0
24.	16	Paid John Kerr	100 0 0
		Discount allowed by him	2 5 6
25.	17	Paid water rate	2 12 6
26.		Received Western Steel Company's cheque for commission	8 15 0
27.	18	Retired under discount acceptance given to Sims & Co., 2nd inst. for	768 10 0
28 & 29.	19	Sold William Wright for 3 months' bill, 100 tons bars at £8 10s. net	850 0 0
30.	20	Paid wages	4 5 0
31.	22	Bought of Western Steel Company, 40 tons steel sleepers at £7 10s.	300 0 0
32.		Paid cheque, less 2½ per cent. allowed ..	292 10 0

			£ s d
33.	Jan. 23	Paid poor rates	5 3 4
34.	25	Paid acceptance due this day No. 43 ..	281 10 0
35.		Received of Henry Dale, cheque on account	150 0 0
36.	26	Paid Jones & Young	40 15 0
		Discount allowed	1 2 0
37.	27	Received of Trustee of Thomas King, first and final dividend of 19s. in the £ ..	262 2 5
38.		Debited loss hereon to Henry Fox's separate account..	18 15 11
39.		Paid wages	4 5 0
40 & 41.	29	Received account sales, sight draft and stock account from Henry Poole, Smyrna consignment	420 0 0
42.	30	Paid plumber's account, warehouse roof	2 1 9
43.		Paid acceptance No. 44, due this day ..	250 0 0
44.	31	Paid clerk's salary	12 10 0
45.		Debited depreciation of premises and furniture	5 0 0
46.		The stock-in-trade being taken this day, was found to be as follows:—	

tons cwt. qrs.

68	5	0	Angles at £8 ..	£546 0 0
80	0	0	Bars at £7 15/- ..	620 0 0
8	0	0	Fish-plates at £7 10/- ..	60 0 0
1	6	1	Rivets at £22 ..	28 17 6
140	0	0	Sleepers at £7 10/- ..	1,050 0 0

297 11 4	£2,304 17 6
----------	-------------

47.	Value of stock on consignment, Smyrna	338 4 6
48.	Petty expenses paid for month	4 13 8
49.	Credited Henry Fox for travelling expenses	10 0 0

All amounts for £5 or over were paid by cheque, all under that amount in cash, unless otherwise stated. All moneys received were paid into the bank the same day.

One or two of these transactions require a little explanation.

2 and 3. This item consists of two separate transactions—the purchase of goods from Sims & Co., and the payment for same (less discount) by acceptance of the bill forwarded by them.

8. This item, which is dealt with through the Journal, would in practice probably be entered in a "Consignments Outwards" Book, of a like character to the Sales Book.

10. Is an instance of an overcharge. It will be entered in the Purchase Returns Book and posted to the debit of Sims & Co., and to the credit of Angles Account.

14. This should be dealt with through the Journal, as the goods have not passed through Fox & Crane's hands.

17. The Journal may be used for this also, but in practice such entries would probably be sufficiently numerous to render a special Commission Book desirable.

12, 17, 33, 42, 44, 45, 48 and 49. In practice there would be separate Nominal Accounts opened to each of these ; but as the example only gives one entry to each account, it has been thought unnecessary to show all these accounts in the *pro forma* example about to be given.

The subsidiary books required to give effect to the above transactions are now shown.

Dr.		CASH.				CONTRA.				Cr.			
No.	Date	Particulars	Fo.	Discount	Cash	Bank	No.	Date	Particulars	Fo.	Discount	Cash	Bank
1969	Jan. 1	To Balance	21		£ 5 s d	£ 5 s d	1969	Jan. 3	By Sims & Co. ...	15		£ 4 s d	£ 4 s d
" "	"	Joseph Crane	21		1,724 10 0	1,724 10 0	"	"	Consignment, ...	9		6 ..	81 0 0
6	" 5	Capital Recd.	2		3,000 0 0	3,000 0 0			Smyrna (Fwdt. Ins. and Charges) ...	21		..	56 2 9
13	" 8	Bills Recd., No. 74	3		186 17 6	186 17 6			Wages, ...	23		4 5 0	
22	" 15	Do., No. 77	6		217 10 0	217 10 0			Fire, Bright, ...	26		3 5 0	
		Consignment, Smyrna (per H. J. Pool)	21		750 6 8	750 6 8			Wages, ...	17		70 0 0	
23	" 17	Bill. Wright	12		280 0 0	280 0 0			John Kerr	19		9 5 6	100 0 0
26	" 18	Western Steel Co.	18		25 17	25 17			Water Rate	36		2 12 6	
33	" 25	Harry Dale	13		8 15 0	8 15 0			Bills Payable	18			
37	" 27	Trustees Thos. King (First & final dividend 18s. in the £)	11		150 0 0	150 0 0			No. 46	1		11 10 0	768 10 0
		Consignment, Smyrna (per H. J. Pool) received	21		30	30			Wages	23		..	
41	" 29	Discounts received	11		262 2 5	262 2 5			Western S. C. Co. Cn.	18		7 10 0	292 10 0
"	"		22		33 8	33 8			Poor Rats	26		..	29 2 3 4
			22		34 1	34 1			Bills Payable	16		..	
			22		39 0	39 0			No. 43	4		..	281 10 0
			22		39 13 0	39 13 0			Jones & Young	33		1 2 0	40 15 0
			22		42 0	42 0			Wages	33		..	
			22		42 0	42 0			Repairs to Warehouse	36		..	
			22		42 0	42 0			No. 44	4		..	
			22		42 0	42 0			Bills Payable	31		..	
			22		42 0	42 0			Clerks' Salaries	26		..	
			22		42 0	42 0			Petty Expenses	48		..	
			22		42 0	42 0			Balance carried down	1		4 13 8	
			22		42 0	42 0			..	1		36 3 5 5,042 0 6	
			22		42 0	42 0			..	1		£ 29 13 0 85 16 4 7,000 1 2	
			22		42 0	42 0			..	1		£ 29 13 0 85 16 4 7,000 1 7	
	Feb. 1	To Balance down	1		56 3 5	56 3 5							

SALES Book.

See page 121.

PURCHASE Book.

See page 119.

PURCHASE RETURNS Book.

There is only one entry to be made in this book, namely transaction No. 10; the form is as follows:—

PURCHASE RETURNS for the month of January 1909.

JOURNAL.

The Journal will be as follows:—

I JOURNAL, 1909.

			Dr.	Cr.
			£ s d	£ s d
2 Jan. 2	Sims & Co. To Discount Account <i>Being 2½% off their invoice of this date against Bills payable No. 46.</i>	15 22	20 0 0 ..	20 0 0
8 Jan. 6	Consignment at Smyrna To Angles Account <i>For 80 tons Angles shipped to Hy. Poole, this day.</i>	21 5	640 0 0 ..	640 0 0
14 Jan. 10	Joseph Ball To Western Steel Co. <i>For 70 tons steel rails @ £7 per ton, sold Ball on Comm.</i>	10 18	490 0 0 ..	490 0 0
16 Jan. 11	Western Steel Company To Bills receivable <i>For Bill No. 79, endorsed and handed over to them this day.</i>	18 3	490 0 0 ..	490 0 0
17 Jan. 11	Western Steel Company To Commission Account <i>For our comm. on the preceding @ 2½ per ton.</i>	18 26	8 15 0 ..	8 15 0
38 Jan. 27	Hy. Fox, Capital Account To Thomas King <i>Being the loss experienced by his failure, charged against Mr. Fox, who guaranteed all book debts</i>	1 11	13 15 11 ..	13 15 11
45 Jan. 31	Depreciation of Premises and Furniture To Freehold Premises Account <i>Being the amount written off for depreciation @ (say) 3½ per cent. per annum.</i>	26 20	5 0 0 ..	5 0 0
Jan. 31	Travelling Expenses To Hy. Fox, Capital Account	26 1	10 0 0 ..	10 0 0
			£1,677 10 11	£1,677 10 11

It will be observed that the "closing" entries are not journalised in this example, in accordance with the usual (but perhaps not altogether commendable) practice of business houses.

BILLS RECEIVABLE Book.

See page 97.

BILLS PAYABLE Book.

See page 101.

Before proceeding to the following chapter, the student is recommended to carefully study the entries in the seven subsidiary books (the number against each entry will be seen to refer to the number set against the respective transaction), and to master the reason for, and effect of, each entry: then to independently prepare similar books, using the transactions as his sole guide, and to post the Ledger.

QUESTIONS ON CHAPTER X.

1. What are the two usual methods of opening a new Ledger?
2. How would you deal with an overcharge upon goods purchased?
3. How would you enter goods sold on commission?
4. What are the subsidiary books usually kept by a trader?
5. What class of transactions is usually recorded in each?
6. What is the advantage of employing any subsidiary book beyond the Journal?

XI.—TRANSACTIONS OF FOX & CRANE (*continued*).

Trial Balance—Closing the Ledger.

THE student who has taken the trouble to post up the Ledger of Fox & Crane will find that their Trial Balance on the 31st January is as follows :—

TRIAL BALANCE, 31st January 1909.

	Dr.			Cr.			Dr.			Cr.		
	£	s	d	£	s	d	£	s	d	£	s	d
1. Henry Fox, Capital ..	13	15	11	7,658	13	9	..	..	..	7,644	17	10
2. Joseph Crane, do. ..	..	..	..	3,000	0	0	..	..	..	3,000	0	0
3. Bills Receivable ..	2,140	7	6	894	7	6	1,246	0	0	..	..	..
4. Bills Payable ..	1,311	10	0	1,452	6	8	..	..	..	140	16	8
5. Angles ..	1,200	0	0	653	13	0	546	7	0	..	..	..
6. Bars ..	1,550	0	0	1,030	0	0	520	0	0	..	..	..
7. Fish-plates ..	150	0	0	96	0	0	54	0	0	..	..	..
8. Rivets ..	39	17	6	12	15	0	27	2	6	..	..	..
9. Sleepers ..	1,050	0	0	..	..	..	1,050	0	0	..	..	..
10. Joseph Ball ..	548	19	0	490	0	0	58	19	0	..	..	..
11. Thos. King ..	275	18	4	275	18	4	..	..	..	..	..	..
12. William Wright ..	1,135	9	9	1,130	0	0	5	9	9	..	..	..
13. Henry Dale ..	358	10	0	150	0	0	208	10	0	..	..	..
14. Hugh Forbes ..	108	15	0	96	0	0	12	15	0	..	..	..
15. Sims & Co... ..	868	14	6	885	1	6	13	13	0	..	..	..
16. Jones & Young ..	41	17	0	41	17	0	..	..	..	..	..	..
17. Percy Bright ..	73	4	0	73	4	0	..	..	..	..	..	..
18. Western Steel Co. ..	798	15	0	798	15	0	..	..	..	..	..	..
19. John Kerr ..	102	5	6	102	5	6	..	..	..	..	..	..
20. Freehold Premises ..	1,740	0	0	5	0	0	1,735	0	0	..	..	..
21. Consignment (Smyrna) ..	1,376	2	9	1,170	6	8	205	16	1	..	..	..
22. Discounts ..	..	..	..	49	13	0	..	..	..	49	13	0
23. Wages ..	17	0	0	..	..	..	17	0	0	..	..	..
26. Profit and Loss ..	45	6	3	8	15	0	36	11	3	..	..	..
ct. Cash at Bank ..	5,042	0	6	..	..	..	5,042	0	6	..	..	..
" do. in hand ..	36	3	5	..	..	..	56	3	5	..	..	..
	£20,074	11	11	£20,074	11	11	£10,835	7	6	£10,835	7	6

In closing these books and preparing a Profit and Loss Account and Balance Sheet, attention must be first directed to the six Trading Accounts, Nos. 5, 6, 7, 8, 9, and 21. It has been already explained (page 116), that, "*in motion* the Trading Account is a Composite Account—partly Real and partly Nominal—the balance . . . being compounded of the value of the stock and the profit earned on the sales." This balance is the amount now appearing in the Trial Balance, and the first step should be to separate this balance into—

- (a) The debit balance of the Real Account (*i.e.*, the value of the stock), and
- (b) The credit balance of the Nominal Account (*i.e.*, the profit on the sales).

The value of the stock might, in the present example, be arrived at by pricing out the difference between the Dr. and Cr. *weight columns* at cost price; but in practice the quantity of stock in hand would always be verified by actual remuneration, and the *pro forma* example gives the amount of stock in each department.

- I. If the value of the stock exceed the debit balance of the Trading Account, the difference is the *profit* on sales.
- II. If the value of the stock be less than the debit balance of the Trading Account, the difference is the *loss* on sales

III. If the Trading Account shows a credit balance, the profit on sales will be the sum of such balance *plus* the value of the stock.

Expressed in algebraical formulæ these three possible contingencies appear as follows :--

Let B represent the debit balance of Trading Account, $(-B)$ the credit balance thereof, V the value of the stock, P the profit on sales, and $(-P)$ the loss on sales.

- I. Then $B = V - P \therefore B + P = V \therefore P = V - B$.
- II. Then $B = V - P \therefore B - V = -P = (-P)$.
- III. Then $(-B) = V - P \therefore (-B) - V = -P \therefore B + V = P$.

In any case, therefore, the amount of the profit, or loss, on sales may be readily computed ; the next step is to debit Trading Account and credit Profit and Loss with all profits, and credit Trading Account and debit Profit and Loss with all losses. We have now eliminated the nominal element from these Trading Accounts, and the balance to their respective debits represents the value of stock on hand.

The next step is to transfer the Nominal Accounts proper to Profit and Loss, and in doing so we shall require to see that they completely record the transactions under their respective heads.

Discounts.—In this account we find that debit has not yet been taken for £4 10s. to be allowed to Henry Dale, under transaction No. 5. This discount will not be allowed unless punctual payment be made, and it is, therefore, inexpedient to credit Dale's account with the amount; still the £4 10s. is a charge against this month's profits, and, accordingly, we must transfer to the credit of Profit and Loss Account £45 3s.—not £49 13s. as shown in the Trial Balance.

This leaves a balance of £4 10s. to the credit of Discount Account, which may be brought down on that account as a liability, but a more scientific method is to pass a Journal entry as follows:—

		£ s d		£ s d
Jan. 31	Discounts Account	22	4 10 0	
	To Suspense Account	25	..	4 10 0
	For Outstanding Discounts on this date, viz.:—			
	Henry Dale, £4 10 0			

The *Suspense Account*, to which the reader is now introduced for the first time, is a Personal Account—the full meaning of the title being “Sundry Debtors and Creditors for various Assets and Liabilities carried forward.”

Strictly speaking, almost all Nominal Accounts would, in practice, require the co-operation of the Suspense Account: thus:—

(a) Wages are only paid up to the 27th January; 4 days' wages—say £2 5s.—are due, and should be debited to Wages Account and credited to Suspense Account.

(b) Fire insurance, water-rate, and poor-rate have been paid in advance; Suspense Account should be debited, and these accounts respectively credited with the proportion still unexpired.

(c) Other items outstanding, e.g., taxes, gas, and general rates, would also require to be brought into account by debiting the various Nominal Accounts, and crediting Suspense Account, with the proportion properly chargeable to this month.

As, however, these points would illustrate no new principle, they are omitted from the *pro forma* accounts to avoid undue complication.

All the Nominal Accounts have now been focussed into the Profit and Loss Account, which, accordingly, shows a credit balance of £231 8s. 2d., being a net profit on the month's trading. This sum must be divided between the two partners in the proportions mutually agreed upon, crediting each partner's Capital Account with the amount of his share; it still remains to bring down the balances of the Real and Personal Accounts, and prepare the Balance Sheet.

The Ledger—thus completed—will then appear as follows :—

MESSRS. FOX AND CRANE'S LEDGER.

<i>Dr.</i>	HENRY FOX, CAPITAL ACCOUNT.			<i>Cr.</i>
1909 Jan. 27	To Thos. King ..	£ 1 s 13 d 15 11	1909 Jan. 1	By Balance ..
31	" Balance down	7,839 19 0	31	" Travelling Expenses
				" Profit and Loss A/c ..
				1 24 7,648 13 9
		<u>£7,844 14 11</u>		1 26 186 1 2
				<u>£7,844 14 11</u>
			Feb. 1	By Balance ..
				1 24 7,839 19 0

<i>Dr.</i>	JOSEPH CRANE, CAPITAL ACCOUNT.			<i>Cr.</i>
1909 Jan. 31	To Balance down	£ 2 s 3,045 7 0	1909 Jan. 1	By Cash.. ..
		<u>£3,045 7 0</u>	31	" Profit and Loss A/c ..
			1 26	1 26 45 7 0
				<u>£3,045 7 0</u>
			Feb. 1	By Balance ..
				2 24 3,045 7 0

<i>Dr.</i>	BILLS RECEIVABLE ACCOUNT.			<i>Cr.</i>
1909 Jan. 1	To Balance ..	£ 1 s 124 d 7 6	1909 Jan. 5	By Cash, No. 74
31	" Sundries	1 26 1,136 0 0	8	" No. 77
		<u>£2,140 7 6</u>	10	" Western Steel Co.
			31	" Balance down
				1 24 186 17 6
				" 217 10 0
				1 26 490 0 0
				3 24 1,246 0 0
				<u>£2,140 7 6</u>
Feb. 1	To Balance ..	3 1,246 0 0		

4

Dr.

BILLS PAYABLE ACCOUNT.

Cr.

1909 Jan. 18	To Cash and Dis- count, No. 46		£ s d	1909 Jan. 1	By Balance	..	£ s d
25	" Cash and Dis- count, No. 43	I	780 0 0	31	" Sundries	..	1 24
30	" Cash and Dis- count, No. 44	"	281 10 0				bb 15
31	" Balance down	"	250 0 0				
		4	140 16 8				
			£1,452 6 8				£1,452 6 8
			<hr/>				<hr/>
				Feb. 1	By Balance	..	140 16 8
						4	

5

Dr.

TRADING ACCOUNT—ANGLES.

Cr.

1909 Jan. 1	To Balance.	L. 24	t. c. q.	£ s d	1909 Jan. 6	By Consign- ment	t. c. q.	£ s d
31	" Sundries	P. I	50 0 0	400 0 0	31	J. I	80 0 0	640 0 0
			100 0 0	800 0 0	"	P.R.I	115 0	13 13 0
					"	Profit & Loss A/c	L. 26	7 0
					"	Balance (Stock on hand)	..	
			150 0 0	£1,200 0 0	5	68 5 0	546 0 0	
			<hr/>	<hr/>			150 0 0	£1,200 0 0
Feb. 1	To Balance.	5	68 5 0	546 0 0				

6

Dr.

TRADING ACCOUNT—BARS.

Cr.

1909 Jan. 1	To Balance.	L. 24	t. c. q.	£ s d	1909 Jan. 31	By Sales	t. c. q.	£ s d
31	" Profit & Loss A/c	L. 26	200 0 0	1,550 0 0	"	Balance (Stock on hand)	s. I	120 0 0
			..	100 0 0		..	80 0 0	1,030 0 0
			200 0 0	£1,650 0 0			200 0 0	£1,650 0 0
			<hr/>	<hr/>			<hr/>	<hr/>
Feb. 1	To Balance.	6	80 0 0	620 0 0				

L

7

Dr.

TRADING ACCOUNT—FISH-PLATES.

Cr.

1909 Jan. 1 31	To Balance ..	t. c. q.	£ s d	1909 Jan. 31	By Sundries ..	s. i.	t. c. q.	£ s d
	L.24 " Profit and Loss A/c	20 0 0	150 0 0	"	" Balance (Stock on hand) ..	7	12 0 0	96 0 0
	L.26	..	6 0 0				8 0 0	60 0 0
			20 0 0				20 0 0	£156 0 0
Feb. 1	To Balance ..	7	8 0 0	60 0 0				

8

Dr.

TRADING ACCOUNT—RIVETS.

Cr.

1909 Jan. 1 31	To Balance ..	t. c. q.	£ s d	1909 Jan. 31	By Sundries ..	s. i.	t. c. q.	£ s d
	L.24 " Sundries	1 4 1	26 13 6	"	" Balance (Stock on hand) ..	8	10 0	12 15 0
	P. I " Profit and Loss A/c	12 0	13 4 0				1 6 1	28 17 6
	L.26	..	1 15 0				1 16 1	£41 12 6
			1 16 1				1 16 1	£41 12 6
Feb. 1	To Balance ..	8	1 6 1	28 17 6				

9

Dr.

TRADING ACCOUNT—SLEEPERS.

Cr.

1909 Jan. 31	To Balance ..	t. c. q.	£ s d	1909 Jan. 31	By Balance (Stock on hand) ..		t. c. q.	£ s d
	L.24 " Sundries ..	100 0 0	750 0 0	"	" Balance (Stock on hand) ..	9	140 0 0	1,050 0 0
	P. I	40 0 0	300 0 0				140 0 0	£1,050 0 0
			140 0 0				140 0 0	£1,050 0 0
Jan. 31	To Balance ..	9	140 0 0	1,050 0 0				

10

Dr. JOSEPH BALL. CONTRA. Cr.

			£ s d			£ s d
1909 Jan. 10	To Balance Western Steel Co. ..	1 24 " 11	58 19 0 490 0 0	1909 Jan. 31	By Bills received.. " Balance down..	b 26 10
			£548 19 0			490 0 0 58 19 0
Feb. 1	To Balance ..	10	58 19 0			£548 19 0

11

Dr. THOMAS KING. CONTRA. Cr.

			£ s d			£ s d
1909 Jan. 1	To Balance ..	1 24	275 18 4	1909 Jan. 27	By Cash (per Trustees, 1st and final Divi- dend of 19/- in the £) .. " H. Fox (for balance) ..	1 1 1
			£275 18 4			262 2 5 13 15 11
			£275 18 4			£275 18 4

12

Dr. WILLIAM WRIGHT. CONTRA. Cr.

			£ s d			£ s d
1909 Jan. 19	To Balance Goods ..	1 24 " 8 1	285 9 9 850 0 0	1909 Jan. 19 31	By Cash .. " Bills received.. " Balance down..	b 1 26 12
			£1,135 9 9			280 0 0 850 0 0 5 9 9
Feb. 1	To Balance ..	12	5 9 9			£1,135 9 9

13

Dr.

HENRY DALE.

CONTRA.

Gi

14

Dr.

HUGH FORBES.

CONTRA-

Gr.

1909				£	s	d	1909			£	s	d
Jan.	5	To Goods	..	8	1		Jan.	5	By Bills received	b	26	
13	"	Do.	..	"			31	"	Balance down	14		
									£108 15 0			
									<u>£108 15 0</u>			
Feb.	1	To Balance	..	..	12	15	0					

15

Dr.

SIMS & CO.

CONTRA.

Cr.

1909			£	s	d	1909			£	s	d	
Jan.	3	To Cash and Dis-				Jan.	1	By Balance				
"	"	count ..	x	85	1	6	2	" Goods ..	124	85	1	
"	"	Bills Payable..	b 15	780	0	0	31	" Balance down	15	0	6	
"	"	Discount ..	j 1	20	0	0				800	0	0
6	"	Goods ..	p.r 2	13	13	0				13	13	0
			£	898	14	6				£	898	14
Feb.	1	To Balance ..	15	13	13	0						

16

Dr.

JONES & YOUNG.

CONTRA.

Cry.

1909 Jan. 24	To Cash and Dis- count ..	I	f s d 41 17 0	1909 Jan. 1	By Balance	..	1 24	f s d 41 17 0
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17

Dr.

PERCY BRIGHT.

CONTRA.

Cr.

1909 Jan. 12	To Cash and Dis- count ..	£ s d 1 73 4 0	1909 Jan. 12	By Balance .. " Goods.. ..	1 24 p 1	£ s d 60 0 0 13 4 0
		£73 4 0				£73 4 0

18

Dr.

WESTERN STEEL CO.

CONTRA.

Cr.

1909 Jan. 10	To Commission ..	j 1 £ s d 8 15 0	1909 Jan. 10	By Joseph Ball ..	j 1 £ s d 490 0 0	
" " 22	" Bills received. " Cash and Dis- count ..	" 490 0 0 j 1 300 0 0	17 22	" Cash " Goods.. ..	p 1 8 15 0 300 0 0	
		£798 15 0				£798 15 0

19

Dr.

JOHN KERR.

CONTRA.

Cr.

1909 Jan. 16	To Cheque and Discount ..	£ s d 1 102 5 6	1909 Jan. 1	By Balance ..	1 24	£ s d 102 5 6
		£102 5 6				£102 5 6

20

Dr.

FREEHOLD PREMISES.

CONTRA.

Cr.

1909 Jan. 1	To Balance ..	1 24 £ s d 1,740 0 0	1909 Jan. 31	By Depreciation.. " Balance down	j 1 20 £ s d 5 0 0 1,735 0 0	
		£1,740 0 0				£1,740 0 0
Feb. 1	To Balance ..	20 1,735 0 0				

21

Dr. CONSIGNMENT ACCOUNT (HY. POOLE, SMYRNA).* Cr.

1909			£ s d	1909			£ s d
Jan. 1	To Balance ..	i	680 0 0	Jan. 15	By Cash ..	i	750 6 8
6	" Angles ..	j 1	640 0 0	29	" Do. ..	i	420 0 0
"	" Cash (freight, &c.) ..	i	56 2 9	31	" Balance (Stock unsold) ..	21	338 4 6
31	" Profit and Loss Account ..	126	132 8 5				
			£ 1,508 11 2				£ 1,508 11 2
Feb. 1	To Balance ..	21	338 4 6				

22

Dr. DISCOUNTS. CONTRA. Cr.

1909			£ s d	1909			£ s d
Jan. 31	To Suspense Ac- count ..	j 2	4 10 0	Jan. 2	By Sims & Co. ..	j 1	20 0 0
"	" Profit and Loss Account ..	126	45 3 0	31	" Sundries ..	i	29 13 0
			£49 13 0				£49 13 0

23

Dr. WAGES. CONTRA. Cr.

1909			£ s d	1909			£ s d
Jan. 6	To Cash ..	i	4 5 0	Jan. 31	By Profit and Loss	126	17 0 0
13	" Do. ..	"	4 5 0				
20	" Do. ..	"	4 5 0				
27	" Do. ..	"	4 5 0				
			£17 0 0				£17 0 0

24

Dr. BALANCE SHEET. Cr.

(The Opening Balance Sheet was shown on page 129.)

25

Dr. SUSPENSE ACCOUNT. Cr.

				1909			£ s d
				Jan. 31	By Discounts ..	j 2	4 10 0

* A better method of treating Consignment Accounts is explained on page 124, but it cannot be followed here owing to want of detail in the *pro forma* problem.

26 Dr. PROFIT AND LOSS ACCOUNT. Cr.

1909		£ s d	1909		£ s d	
Jan. 8	To Fire Insurance ..	C. I.	3 5 0	Jan. 10	By Commission ..	J. I.
17	" Water Rate ..	"	2 12 6	31	" Bars ..	L.6
23	" Poor Rate ..	"	5 3 4	"	" Fish-Plates ..	L.7
30	" Repairs ..	"	2 1 .9	"	" Rivets ..	L.8
31	" Salaries ..	"	12 10 0	"	" Consignment ..	L.21
"	" Petty Cash ..	"	4 13 8	"	" Discounts ..	L.22
"	" Depreciation ..	J. I.	5 0 0			
"	" Travelling Expenses ..	"	10 0 0			
"	" Angles Account ..	L.5	0 7 0			
"	" Wages ..	L.23	17 0 0			
"	" Net Profit, viz.:*					
	£ s d					
	Hy. Fox ..	186 1 2				
	J. Crane ..	45 7 0				
			231 8 2			
			£294 1 5			
					£294 1 5	

27 Dr. BALANCE SHEET. Cr.

1909		£ s d	1909		£ s d	
Jan. 31	To Henry Fox (Capital) ..	L.1	7,830 19 0	Jan. 31	By Freehold Premises ..	L.20
"	" Joseph Crane (Do.) ..	L.2	3,045 7 0	"	" Stock-in-Trade, viz.: ..	
"	" Bills Payable ..	L.4	140 16 8	"	Angles .. £546 0 0	L.5
"	" Suspense Account ..	L.25	4 10 0	"	Bars .. 620 0 0	L.6
				"	Fish-plates .. 60 0 0	L.7
				"	Rivets .. 28 17 6	L.8
				"	Sleepers 1,050 0 0	L.9
				"		.. 2,304 17 6
				"	Consignments at ..	
				"	Smyrna .. L.21	338 4 6
				"	Joseph Ball .. L.10	58 19 0
				"	William Wright .. L.12	5 9 9
				"	Henry Dale .. L.13	208 10 0
				"	Hugh Forbes .. L.14	12 15 0
				"	Sims & Co. .. L.15	13 13 0
				"	Bills Receivable .. L.3	1,246 0 0
				"	Cash at Bank .. C. I.	5,042 0 6
				"	Cash in hand .. "	36 3 5
			£ 11,021 12 8		£ 11,021 12 8	

* Partners' shares of profits have been transferred to their respective Capital Accounts. See, however, page III.

It is usual for each partner to be supplied with a book containing copies of the Balance Sheets and Profit and Loss Accounts, signed by both partners and the auditor.

The following would represent such a book in the present example, and it may be added that the forms here shown would—in practice—be those adopted in the firm's Ledger.

BOOKKEEPING.

MESSRS. FOX & CRANE,

PROFIT AND LOSS ACCOUNT for the month ended 31st January 1909.

Dr. PROFIT AND LOSS Cr.

	£ s d	£ s d	£ s d
To Wages ..	17 0 0	By Gross Profit on Bars ..	100 0 0
" Depreciation ..	5 0 0	" Fish-Plates ..	6 0 0
" Rates and Insurance ..	5 10 0	" Rivers ..	1 15 0
" Balance carried down ..	215 10 7		
			107 15 0
		Less Loss on Angles ..	0 7 0
		Commission at Smyrna ..	107 8 0
		" Commission ..	132 8 5
			8 15 0
			<u>£248 11 5</u>
To WAREHOUSE EXPENSES, viz.:—			
Travelling Expenses ..	10 0 0	By Balance brought down ..	..
Salaries ..	12 10 0	" Discounts ..	..
Petty Cash ..	4 13 8		..
Repairs ..	2 1 9		..
			215 10 7
			45 3 0
			<u>£260 13 7</u>
To NET PROFIT FOR THE MONTH, viz.:—			
H. Fox (£50 and $\frac{2}{3}$ ths of remainder) ..	186 1 2		
Joseph Crane (4th of do.) ..	45 7 0		
			231 8 2
			<u>£260 13 7</u>

BALANCE SHEET, 31st January 1909.

LAWRENCE R. DICKSEE,
Chartered Accountant.
6th February 1909.

ACCOUNTS OF CONSIGNEES.—The best way of showing the method adopted by consignees for recording their transactions with, and on behalf of, their principals will be to reproduce here the accounts of Henry Poole, of Smyrna, relative to the consignments of Fox & Crane, already mentioned.

From Poole's point of view, the facts are as follows :—

- (1) On 1st January 1909 he held 85 tons of angles on consignment from Fox & Crane, valued at £680.
- (2) On 8th January 1909 he sold 80 tons to the Junction Engineering Co., Lim., for £800, earning thereby a commission of £40.
- (3) On the same date he spent on carriage, &c., £9 13s. 4d.
- (4) On the same date he remitted Fox & Crane a bill at sight for £750 6s. 8d.
- (5) On 14th January he received a further consignment of 80 tons, valued at £640.
- (6) On 20th January he sold 42 tons 14 cwt. 98 lb. for £444 0s. 3d., earning thereby a commission of £22 4s.
- (7) On the same date he spent on various items £1 16s. 3d.

(8) On 22nd January he remitted Fox & Crane a bill at sight for £420.

(9) On 31st January he had on hand 42 tons 5 cwt. 14 lb., valued at £338 4s. 6d.

He deals with these items thus :—

(1) He debits (by means of a Journal entry) "Consignment from Fox and Crane Account" with the value of the goods received from them, and credits "Fox and Crane, for Consignment Account," therewith. The same procedure holds good for (5).

(2) He debits the Junction Engineering Co., Lim., with £800, and credits "Consignment, &c., Account" therewith—probably also by means of the Journal, but perhaps by means of a "Consignment Sales Book." The same procedure holds good for (6). In each case he makes a Journal entry for his commission, debiting "Fox & Crane, &c., Account," and crediting a nominal account called "Commission Account."

(3) These expenses he posts from the credit side of his Cash Book to the debit of "Fox & Crane, &c., Account." The same procedure holds good for (7).

(4) This bill is either a bills payable drawn on a London agent or a bank draft. In the former case, it is entered in the Bills Payable Book, and posted to the debit of "Fox & Crane, &c., Account," and to the credit of Bills Payable Account. In the latter case it has been purchased for cash, and is treated as cash—the Cash Book entry being posted to the debit of "Fox & Crane, &c., Account." The same procedure holds good for (8).

It is usual for the consignee to furnish an "Account Sales," with each remittance. The following is the form of such an account to accompany the remittance of the 8th January:—

ACCOUNT SALES of 85 tons of Steel Angles, received per S.S. *Sultan*,
consigned by **FOX & CRANE**, of London.

1909 Jan. 8	Sold 80 tons to the Junction Engineering Co., Lim., at £10 	£ s d	£ s d
			800 0 0
CHARGES :			
Carriage, &c.	.. .. .. .. ..	9 13 4	
My Commission, at 5%	.. .. .. ..	40 0 0	
			49 13 4
Sight Draft herewith	.. .. .. ..		£750 6 8
<hr/>			
E. & O. E.	Memo : 5 tons unsold, on hand. Smyrna, 8th January 1909.		

(9) Assuming that Henry Poole wishes to balance off these accounts on the 31st January, he will proceed as follows:—
In the “ Consignment, &c., Account ”—which has already been described as a Trading Account—he brings down, in the quantities column, the stock on hand; he then inserts in the

cash columns the value of such stock ; he then transfers the balance of the cash columns (which represents profit or loss, as the case may be—in this case profit) to the “Fox & Crane, &c., Account,” and rules off the latter, bringing down the balance. The *Dr.* balance of the first account represents the value of goods unsold, the *Cr.* balance of the second account the amount for which Poole is accountable to the consignors. If the two balances are equal in amount the account is square, so far as it goes ; if the difference between the two shows a *Dr.* balance, Poole has either remitted in excess of the sales, or else he has not yet deducted commission or charges from his remittances (in either case, the effect being that Fox & Crane are his debtors) ; if the difference between the two shows a *Cr.* balance, Poole has still a remittance to make to Fox & Crane—who, at present, are his creditors.

The two accounts will appear in Poole's Ledger in the following form :—

Dr. CONSIGNMENT FROM FOX & CRANE ACCOUNT. *Cr.*

1909		t. c. lb.	£ s d	1909		t. c. lb.	£ s d
Jan. 1	To Balance ..	85 0 0	680 0 0	Jan. 8	By Junction Eng. Co., Lim. ..	80 0 0	800 0 0
14	" Angles ..	80 0 0	640 0 0	20	" Cash ..	42 14 98	444 0 3
31	" Fox and Crane, profit to date ..	..	262 4 9	31	" Balance down	42 5 14	338 4 6
		165 0 0	£1,582 4 9			165 0 0	£1,582 4 9
Feb. 1	To Balance ..	42 5 14	338 4 6				

Dr. FOX & CRANE, FOR CONSIGNMENT ACCOUNT. *Cr.*

1909		£ s d	1909		£ s d
Jan. 8	To Sundry Expenses ..	9 13 4	Jan. 1	By Balance ..	680 0 0
"	" Commission on Sales ..	40 0 0	14	" Angles ..	640 0 0
20	" Bill to them ..	750 6 8	31	" Consignment A/c, profit to date ..	262 4 9
"	" Sundry Expenses ..	1 16 3			
"	" Commission on Sales ..	22 4 0			
22	" Bill to them ..	420 0 0			
31	" Balance down ..	338 4 6			
		£1,582 4 9			£1,582 4 9
			Feb. 1	By Balance ..	338 4 6

JOINT VENTURES are subject to a similar treatment except that all charges and expenses are debited to the first account, which thus shows the net profit or loss on the venture ; this profit or loss is transferred part to the second account and part to Profit and Loss Account in the shares previously agreed upon. The above procedure holds in cases where the party concerned is managing the venture ; if, on the other hand, he is not the manager, his position—for present purposes—is equivalent to that of the consignor.

QUESTIONS ON CHAPTER XI.

1. How is a Trading Account closed ?
2. When closing a Ledger, how would you deal with discounts outstanding ?
3. What is a Suspense Account ?
4. Enumerate some of the circumstances likely to involve the use of a Suspense Account ?
5. How does the process of closing a trader's Ledger differ from that of a non-trader's Ledger ?
6. In the case of a firm's accounts, how would you dispose of the balance of the Profit and Loss Account ?
7. Describe the method adopted by a consignee in recording transactions with his principal.
8. How would you keep the accounts relating to a joint venture ?

XII.—ADJUSTMENT ACCOUNTS AND SELF-BALANCING LEDGERS.

As soon as a business begins to assume even moderate proportions it will be obvious that it is no longer possible for one bookkeeper to keep pace with the number of transactions occurring daily. As soon as it becomes necessary to employ several bookkeepers, the question of their respective duties becomes a matter for consideration. Where two bookkeepers are employed it is not unusual to find one in charge of the Ledger and Cash Book, and his assistant in charge of the various subsidiary books ; there is, however, a limit to the number of Ledger Accounts that can be kept going by one Ledger clerk, and as soon as this limit has been reached a subdivision of the Ledger becomes imperative.

The first division of the Ledger is usually into three parts, viz. :—

- (1) *Sold Ledger*, comprising the accounts of trade debtors ;
- (2) *Bought Ledger*, comprising the accounts of trade creditors ; and
- (3) *General Ledger*, comprising the remaining Ledger Accounts.

In important concerns a still further subdivision becomes necessary. The Sold and Bought Ledgers are usually divided into sections of the alphabet (*e.g.*, Sold Ledger A to E, Sold Ledger F to K, Sold Ledger L to R, and Sold Ledger S to Z); or, less frequently, into localities (*e.g.*, Bought Ledger, Town; Bought Ledger, Country; Bought Ledger, Foreign); and the General Ledger into Nominal Ledger (comprising the Nominal Accounts, except the Trading and Profit and Loss Accounts) and Private Ledger (comprising Capital Account, Real Accounts, Balance Sheet, Trading and Profit and Loss Accounts, &c.). The exact subdivision is, of course, a matter of convenience rather than principle, and thus it will be found that considerable variation obtains—*e.g.*, “Bills Receivable Account” is sometimes placed in the Sold Ledger, sometimes in the Nominal Ledger, and sometimes in the Private Ledger.

It may, at this point, be mentioned that the subdivision into “Sold,” “Bought,” and “General” (or “Private,” as it is, perhaps, more usually called), is usually to be found even in comparatively small concerns. There are two reasons to be advanced in its favour: (1) The privacy of the General Ledger—which alone shows the result of the trading—may then be easily assured, and (2) the classification facilitates reference to any account that it may be required to refer to.

The attention of the student is particularly directed to the following paragraphs.

The mere fact that one Ledger is divided into two (or more) books does not *ipso facto* alter its nature.

The Ledger, as a whole, still records the double (or complete) effect of each transaction.

At any time the sum of its debits will always equal the sum of its credits.

Consequently, a Trial Balance of a set of Ledgers can always be taken by abstracting every balance ; and the total of the debit balances will always equal the total of the credit balances, provided the postings are correct.

There is thus no difficulty in testing the accuracy of a set of Ledgers by extracting all the Ledger balances.

But if it is desired to test the accuracy of *one* Ledger only, or to find out in which Ledger an *error* in the Trial Balance exists, how can it be done ?

Many sets of Ledgers possess no means of facilitating either of these inquiries ; but yet the problem is not difficult : it consists in the employment of ADJUSTMENT ACCOUNTS which make each Ledger SELF-BALANCING.

The Adjustment Account is one of the most beautiful and artistic devices in modern bookkeeping, and no bookkeeper who understands its application would willingly dispense with the enormous advantages its introduction affords. On the other hand, in a large concern—where each Ledger clerk is responsible for the accuracy of his own Ledger—its services are simply invaluable.

For the sake of showing the precise application of the Adjustment Account it is proposed to raise *pro forma* accounts recording the following transactions * :—

On the 1st January 1884 Jones and Smith commenced business in partnership as grocers, profits being shared equally :—

						£	s	d
Jan.	1.	Jones	pays into Bank ..	..	..	..	200	0
	,,	Smith	do.	..	..	..	200	0
	8.	Paid for fixtures..	..	..	..	..	50	0
	10.	Bought from Robinson	goods value ..	..	..	..	287	0
	18.	do.	Brown do.	..	..	..	125	0
	19.	Sold Clarke	goods value ..	..	..	..	12	10
	22.	do. Dodd	do.	..	..	..	15	7
	29.	do. Cowley	do.	..	..	..	11	3
	31.	Sundry ready-money sales ..	..	..	..	..	91	7
Feb.	6.	Sold Ward	goods value ..	..	..	..	9	8

* This example was set at Intermediate Examination of the Institute of Chartered Accountants in June 1884.

					£ s d
Feb.	9.	Received from Clarke on account ..	..	..	10 0 0
	,,	Sold Dodd goods value ..	..	..	15 6 0
	13.	Bought from Robinson goods value ..	..	..	95 0 0
	21.	Received from Dodd ..	..	..	30 13 0
	28.	Sundry ready-money Sales ..	..	..	113 9 0
March	6.	Paid Robinson ..	..	..	300 0 0
	13.	Sold Ward goods value ..	..	..	11 6 0
	15.	Sold Richardson goods value ..	..	..	13 7 3
	20.	Received from Ward ..	..	..	20 0 0
	31.	Sundry ready-money Sales ..	..	..	116 9 0
April	9.	Paid taxes ..	..	..	7 4 0
	17.	Sold Richardson goods value ..	..	..	11 3 0
	18.	Sundry ready-money Sales ..	..	..	43 16 3

On the 18th April 1884 Smith died. Make up the accounts of the firm to that date, the stock being taken at £167, there being £18 due for rent, and £32 8s. 7d. due to Jones for petty expenses paid by him. Assume that all receipts are paid into bank and all payments made by cheque.

For these transactions the following books are suitable :—

General Ledger,	Journal,
Bought Ledger,	Bought Book,
Sold Ledger,	Day Book,
and Cash Book.	

The Cash Book should be ruled as follows :—

Dr.

CASH.

Cr.

CONTRA.

Date	Particulars	Fo.	Sold Ledger	General Ledger	Bank	Date	Particulars	Fo.	Bought Ledger	General Ledger	Bank
1884				£ s d	£ s d	1884		£ s d	£ s d	£ s d	
Jan. 1	To Jones, Capital..	..	1	200 0 0	400 0 0	Jan. 4	By Fixtures	..	..	..
"	" Smith, do. ..	..	2	200 0 0	..	" Robinson	..	50 0 0	50 0 0	..	
Feb. 9	R. M. Sales ..	..	1	91 7 6	91 7 6	Mar. 6	" Taxes ..	..	300 0 0	300 0 0	
"	Clarke ..	..	2	10 0 0	10 0 0	Apr. 9	"	..	7 4 0	7 4 0	
Mar. 21	Dodd ..	..	3	30 13 0	30 13 0			..	..	..
"	R. M. Sales ..	..	1	113 9 0	113 9 0	Apr. 18	General Ledger Ac-	300 0 0	57 4 0	357 4 0	
Mar. 28	" Ward ..	..	4	20 0 0	20 0 0		count ..	..	5 425 14 9	..	
"	R. M. Sales ..	..	1	116 9 0	116 9 0		B. L. Account ..	..	300 0 0	..	
Apr. 13	Do. ..	..	1	43 16 3	43 16 3		Balance down..	x	468 10 9	468 10 9	
"	General Ledger Ac-	..		425 14 9	400 0 0						
"	count* ..	..	2	300 0 0	425 14 9						
"	S. L. Account..	..	13	..	..				
				£ 725 14 9	825 14 9						
Apr. 19	To Balance† ..	..	x	..	468 10 9						
					468 10 9						
								£ 725 14 9	825 14 9	825 14 9	

*This is the total of the credit items in the "Bought Ledger" column, and is brought over to the debit side preparatory to being posted to the credit of the General Ledger (Adjustment) Account in the Bought Ledger, in the same way as the Discount totals are treated on p. 105. The total of £425 14s. 9d. is dealt with upon similar lines.

†This Balance is treated as a balance in the General Ledger.

In practice it is not unusual to find separate subsidiary Cash Books (or Journals) employed for the entry of Bought Ledger and Sold Ledger Cash; when this is the case, the left-hand column upon each side of the above example becomes unnecessary.

The Journal entries will be as follows:—

JOURNAL 1884.

				£	s	d	£	s	d
Jan. 31	Purchases	..	..	..	8	412	0	0	
	To Bought Ledger Account	..	..	..	12	..		412	0 0
Jan. 31	Sold Ledger Account	..	..	..	13	130	7	6	
	To Sales..	..	..	..	9	..		130	7 6
Feb. 28	Purchases	..	..	..	8	95	0	0	
	To Bought Ledger Account	..	..	..	12	..		95	0 0
Feb. 28	Sold Ledger Account	..	..	..	13	138	3	0	
	To Sales..	..	..	..	9	..		138	3 0
March 31	Sold Ledger Account	..	..	..	13	141	2	3	
	To Sales..	..	..	..	9	..		141	2 3
April 18	Sold Ledger Account	..	..	..	13	54	19	3	
	To Sales..	..	..	..	9	..		54	19 3
April 18	Rent	..	..	..	5	18	0	0	
	To Landlord	..	..	..	7	..		18	0 0
April 18	Petty Expenses	..	..	..	6	32	8	7	
	To Jones	..	..	..	1	..		32	8 7
April 18	Trading Account	..	..	..	10	631	12	0	
	To Purchases	..	..	..	8	..		507	0 0
	" Profit and Loss Account	..	..	..	11	..		124	12 0
April 18	Sales	..	..	..	9	464	12	0	
	To Trading Account	..	..	..	10	..		464	12 0
April 18	Profit and Loss Account	..	..	..	11	57	12	7	
	To Rent ..	..	..	..	5	..		18	0 0
	" Taxes	..	..	..	4	..		7	4 0
	" Petty Expenses	..	..	..	6	..		32	8 7
April 18	Profit and Loss Account	..	..	..	11	66	19	5	
	To Jones..	..	..	..	1	..		33	9 9
	" Smith	..	..	..	2	..		33	9 8

Let the student post the "General Ledger" column of the Cash Book and the Journal into a General Ledger, and then close the Ledger. He will find his Balance Sheet to be as follows:—

BALANCE SHEET, 18th April 1884.

<i>Liabilities.</i>		<i>Assets.</i>	
Jones—Capital Account	£ 265 18 4	Stock-in-Trade	£ 167 0 0
Smith (the late)—Do.	233 9 8	Fixtures	50 0 0
Trade Creditors, as per Bought Ledger	207 0 0	Book Debts, as per Sold Ledger	38 17 3
Landlord—for Rent	18 0 0	Cash at Bank	468 10 9
	<hr/> <hr/> £724 8 0		<hr/> <hr/> £724 8 0

Turning now to the Bought Ledger. The Bought Book will be of the usual type, the various items being posted to the credit of the merchants in the ordinary way: the double-entry of the Bought Book is completed by posting the total of each month's purchases to the debit of "General Ledger Account" in the Bought Ledger. The Bought Ledger payments (first column on Cr. side of Cash Book) are posted to the debit of the various merchants: the double-entry being completed by posting the monthly total of the Bought Ledger payments (which is to be found entered on the Dr. side of the Cash Book in the "Sold Ledger" column) to the credit of "General Ledger Account" in the Bought Ledger. It will thus be seen that the Bought Ledger possesses a complete system of double-entry of its own; and, consequently, that

it is "Self-balancing"—i.e., a list of its balances constitutes a complete Trial Balance.

The "General Ledger Account" of the Bought Ledger is given below.

Dr.	GENERAL LEDGER ACCOUNT.	Cr.
1884		
Jan. 31 To Sundries ..	£ 412 0 0	1884
Feb. 28 " do. ..	2 95 0 0	Apr. 18 By Cash
	<hr/> <hr/> £ 507 0 0	" " Balance down
		£ 300 0 0
		207 0 0
		<hr/> <hr/> £ 507 0 0
Apr. 18 To Balance down	x 207 0 0	

The student is recommended to prepare the Bought Book, post the Bought Ledger, and extract the Trial Balance as on the 18th April 1884.

With the Sold Ledger the same principle holds good. The items of the Day Book are posted to the debit of the various Customers' Accounts, while the total of each month's sales is posted to the credit of the "General Ledger Account." The Sold Ledger cash is posted as usual to the credit of the persons from whom it is received (a special account being raised for "Sundry Ready Money Sales"), and the total cash received is posted from the Cr. side of the Cash Book to the debit of "General Ledger Account."

It will be noticed *en passant* that the total of the "Sold Ledger" column on the Dr. side of the Cash Book balances the total of the "Bought Ledger" column on the Cr. side. The cash balance is to be considered as the balance of a General Ledger Account.

If the student goes the length of constructing the Sold Ledger he will find the Adjustment Account as follows:—

Turning back to the General Ledger. The principle of the General Ledger is that all trade creditors' accounts are condensed into one account (the Bought Ledger Account) and all customers' accounts are condensed into another account (the Sold Ledger Account). Journal entries for purchases and sales are therefore made void of detail, and Cash Book entries relating to Bought and Sold Ledgers are likewise posted to total: in all other respects the method delineated heretofore obtains in its entirety.

When the principle of the Adjustment Account has once been grasped—and the foregoing description should suffice for this purpose—no difficulty will arise in the extension of its application to more complicated matters.

In Part III. of this work it will be shown what an important part the Adjustment Account plays in scientific bookkeeping of the highest order.

It may be mentioned that an auditor can always *construct* an Adjustment Account, for the purpose of checking the Ledger postings—even when the system in use does not include such accounts in its scheme.

QUESTIONS ON CHAPTER XII.

1. What is the object of employing several different Ledgers?
2. Name some of the most usual subdivisions of the Ledger.
3. What is an Adjustment Account?
4. Describe its uses, and the principles governing its application.

EXAMINATION PAPERS.

I.

**(Technical Schools of the County Borough of Cardiff—
Elementary Class.—April 1892.)**

1. What are *Real*, *Personal*, and *Nominal* accounts? Give an example of each.
2. What is a *Debit Balance*, and what does it represent in the case of each of the three classes of accounts mentioned in the preceding question?
3. Write out a Cash Book, recording the following entries:—

		£	s	d
Jan.	1. Balance on hand this day	114	7	9
"	Paid into Bank	100	0	0
"	4. Received from William Jones	63	7	6
"	Allowed discount, 12/6			
"	5. Paid Taxes in cash	3	9	5
"	Received from J. Smith cheque	47	8	1
"	6. Paid into Bank	100	0	0
"	Paid H. Robinson by cheque	118	2	9
	Discount allowed thereon, £3 17s. 3d.			

4. Prepare a Revenue Account and Balance Sheet from the following Trial Balance:—

TRIAL BALANCE.

31st DECEMBER 1890.

		Dr.	Cr.				
		£	s	d	£	s	d
Capital Account		2,179	8	6			
Cash		24	1	6			
Bank		964	4	8			
Sundry Investments		1,419	2	6			
Expenses Account		39	14	5			
Hopkinson & Co.					116	1	9
Dividends and Interest					151	12	10
		<u>£2,447</u>	<u>3</u>	<u>1</u>	<u>£2,447</u>	<u>3</u>	<u>1</u>

5. On 1st January 1892 the assets of John Brown were as follows :—Stock on hand, £406 ; fixtures, £150 ; cash at bank, £560 ; cash in hand, £19 5s. 2d. ; owing by J. Bell, £22 16s. 9d. ; and by E. Owen, £41 7s. 4d. His liabilities were :—Due to Black & Co., £169 8s. 2d. ; bills payable, £150.

His transactions during the month of January were as follows :—

		£ s d
Jan. 4th	Sold J. Bell, goods value	16 9 2
.. 6th	Received of E. Owen, and paid into bank	40 0 0
..	—Allowed him discount	1 7 4
.. 9th	Bought of James Young & Son, goods value	72 14 1
.. 12th	Bills payable, due this day, paid by bank	150 0 0
.. 15th	Sold E. Owen, goods value	46 0 10
	Paid Black & Co., by cheque ..	67 10 0
	They allowed discount thereon ..	1 18 2
.. 18th	Received from J. Bell his acceptance for	39 5 11
.. 20th	Sold to R. Walters, goods value ..	58 3 6
.. 24th	Accepted Black & Co.'s bill for ..	100 0 0
.. 31st	Paid sundry trade expenses ..	12 1 8
	One month's rent now due ..	5 0 0

Prepare the necessary accounts, take out a Trial Balance, and, assuming the stock unsold on the 31st January to be £389, close the books and prepare Balance Sheet and Profit and Loss Account.

II.

(Technical Schools of the County Borough of Cardiff—
Intermediate Class.—April 1892.

1. A farmer starts with £2,000 in the tenancy of a farm at a rent of £600 per annum, and pays during the first year one half-year's rent, £250 for rates, £800 for wages and expenses, and £200 for the maintenance of his family. He has laid out in seed £200; in the purchase of horses, carts, and implements, £400; and cattle, £200. He has received for produce sold, £600, and for cattle sold, £240; and has, at the end of the year, produce value £820; cattle, £480; horses, carts, and implements £360; debts owing to him £320; and cash as will appear by the Cash Account to be prepared. He owes one half-year's rent, and other debts, £110. You are asked to prepare his Profit and Loss Account and Balance Sheet, but no other accounts need be shown.

2. Explain (shortly) the terms "Bills Payable" and "Bills Receivable." Draw upon Richard Wills & Co., of Bridgwater, for £100, at three months. Write across a Bill a form of acceptance, making it payable at Lloyd's Bank, Lim., London.

3. In closing a set of books on 31st December 1891 the following items have to be taken into account:—

- (a) Fire Insurance, £40, was paid on 29th September.
- (b) Rent for the Xmas Quarter, £50, is still unpaid.
- (c) £100 provision must be made for bad debts.
- (d) Smith was allowed to renew his acceptance for £750, due on 1st December, charging him £12 interest for a three months' bill.

Show, by means of Journal entries, how this may be done.

4. On 31st March 1892 Richard Evans had £149 at the bank ; £16 cash in hand ; £1,624 stock-in-trade ; £150 fixtures ; sundry debtors, £1,214 ; and trade creditors, £1,197. Edward Roberts agrees to join him in business, with a capital of £2,000, £500 of which is to be paid as goodwill for the half-share ; but he insists that $12\frac{1}{2}$ per cent. be written off the stock, and 15 per cent. off the sundry debtors.

Show the firm's Balance Sheet on the 1st April, assuming these adjustments to have been made, and the whole of Roberts' £2,000 to have been paid into the bank.

5. Messrs. Turner & Spence commenced business in an hotel on 1st January 1891, with a cash capital £10,000 each. During the year the following items were received :—Board and attendance, £4,000 ; apartments, £500 ; wines and spirits, £560 ; billiards, £180 ; sundries, £216. £18,000 had been paid for freehold premises, £10,000 of which was allowed to remain on mortgage ; the furniture had been taken over at £2,500, and £875 had been paid for the stock of wines and spirits. During the year £1,500 had been spent on provisions, &c. ; £650 on other trade expenses, and £250 for a half-year's interest on mortgage to 30th June had also been paid. £870 was due to trade creditors, and the stock on hand amounted to £520.

Raise the necessary Ledger Accounts by Cash Book and Journal entries ; take out a Trial Balance ; write 2 per cent. off cost of premises, and $12\frac{1}{2}$ per cent. off furniture ; close the Ledger ; and take out a Profit and Loss Account and Balance Sheet.

III.

(Union of Lancashire and Cheshire Institutes.—April 1893.)

Journalise, and post in proper technical language and form (giving a short description), the following imaginary transactions, and make the necessary closing entries, and prepare a "Trial Balance," and compile a Profit and Loss Account and a Balance Sheet.

Up to the 31st December 1892 James Midwood carried on business as a wholesale wine and spirit merchant on his own account. In recognition of the faithful services of his traveller, David Brice, he decided to take him into partnership as and from 1st January 1893. Brice to bring in £1,000 capital, and to be entitled to $\frac{1}{3}$ of the profits each year, the partnership to be carried on in the name or style of Midwood & Brice.

On the 1st January 1893 the books of James Midwood showed the position of his affairs to be as stated below :—

	ASSETS.		
	£	s	d
Cash at Bankers 1,000 0 0
Cash in hand 50 0 0
Port Wine, 5 Pipes at £60 300 0 0
Sherry, 6 Butts at £50 300 0 0
Dowley & Son, debt on open account 450 0 0
Bills Receivable—No. 114, January 15th 1893, Wm. Bell & Co. 900 0 0
			£3,000 0 0

	LIABILITIES.		
	£	s	d
Hans Johnson
Thomas Buckley
Bills Payable—No. 60,			
Due January 12th 1893, J. Nooks	500 0 0
			£1,100 0 0
			<hr/>

Each partner's capital is to be credited with interest at the rate of 5% per annum before arriving at the balance of profit or loss.

During the month of January the transactions of the firm were as follows:—

	£	s	d
Jan. 1. Brice paid into Bank Account of firm his portion of capital	1,000	0	0
,, 2. Sold to Dowley & Son, 3 Pipes Port Wine for ..	210	0	0
,, 3. Paid Cash for Dock Charges on 3 Pipes Port sold yesterday	8	15	0
,, 5. Bought 40 Hhds. Brandy, at £40, from E. Lintott, and gave him a Bill at 2 months, he allowing 2½%	1,600	0	0
,, 8. Shipped per "Annie" on Joint Account with ourselves and Harrison & Co., Liverpool, each one-half concerned, 40 Hhds. Brandy, invoiced at £50	2,000	0	0

Received Debit Notes as below:—

Insurance on Brandy	31	0	0
Dock Charges	25	0	0
Commission to Chas. Kells & Co...	41	2	5
,, 12. Paid Dock Co. Charges by Cheque	25	0	0
Bank advise having paid Bill No. 60 this day	500	0	0

N

		£ s d
Jan. 12.	Received Cheque crossed "not negotiable," for £1,000 from Harrison & Co., being their half-share per "Annie"	1,000 0 0
	Paid Anglo-Assurance Co., by Cheque, £31 Insurance on £2,400, @ 25% on Brandy, per "Annie," for Sydney	31 0 0
,, 15.	William Bell & Co.'s Bill, No. 114, for £900, returned dishonoured	900 0 0
	Paid Cash for noting charges	3 6
,, 15.	Sold W. Scott 4 Butts Sherry for	270 0 0
	Received Cash, £270, for Sherry sold to W. Scott and paid to Bank	270 0 0
	Paid Cash, £11 12s., Dock Charges, on Sherry sold to W. Scott	11 12 0
,, 31.	Paid Trade Charges, £15, for expenses this month Stock on hand—Port	15 0 0
	,, ,,, Sherry	125 0 0
		110 0 0

QUESTIONS TO BE ANSWERED BY STUDENTS.

1. Midwood & Brice are desired to draw a bill on John Howie dated January 7th, 2m/d, for £110 4s. Required the form of the bill of acknowledgement when accepted by them; also how is the bill to be recorded?
2. Sheldon & Sons have given Midwood & Brice their promissory note dated February 9th, at 3m/d, payable to Midwood & Brice's order for £117 15s. Required the form, and how it is to be recorded in Midwood & Brice's books.

3. Required the proper Journal entry for the following :—
Midwood & Brice settled their account with Ben Brown, which is £150, and gave him their note at 2 months, payable to his order.
4. Draw out a promissory note at 3m/d, dated at the time of writing, Aaron Black's payable to Charles Dickson for £320.
5. Having discounted at the banker's Gould Davis's bill for £212 6s., we paid discount £2 3s. 8d.; how are we to enter this transaction in the Cash Book?
6. We paid Messrs. John Felt & Co., by cheque, their account £280 10s., from which they allowed us a discount of £14 0s. 6d. How should this transaction be entered in our books ?

IV.

(The London School of Economics and Political Science,
December 1902.)

1.—Explain fully the exact difference between single-entry and double-entry bookkeeping. State what are the advantages of each. (10 marks.)

2.—What is the object of preparing a Balance Sheet of an undertaking at regular intervals throughout its course ? What will such a Balance Sheet show, and what are its limitations ? (12 marks.)

3.—A Limited Company has a branch establishment at Brighton. On 31st December 1901 the following Trial Balance of the Branch Book is forwarded to the Head Office :—

TRIAL BALANCE.

31ST DECEMBER 1901.

					£	s	d	£	s	d
Head Office	..	..	..	..				2,400	0	0
Remittances	..	..	..	..	1,200	0	0			
Sold Leder	..	..	..	..	1,500	0	0			
Bought Ledger	..	..	..	..				500	0	0
Stock, 1st January 1901	..	..	..	..	2,000	0	0			
Purchases	..	..	..	..	6,500	0	0			
Sales	..	..	..	..				10,200	0	0
Rent	..	..	..	..	400	0	0			
Salaries	..	..	..	..	600	0	0			
Trade Expenses	..	..	..	..	500	0	0			
Bank	..	..	..	..	400	0	0			
					£13,100	0	0	£13,100	0	0

The Stock in hand on 31st December 1901 was £1,700. You are required to incorporate those transactions in the Head

Office Books, showing Branch Account and Branch Trading and Profit and Loss Accounts in the Head Office Ledger; also Branch Balance Sheet. (18 marks.)

4.—Explain fully *any one* system by means of which a single Ledger may be balanced separately. (12 marks.)

5.—On the 1st July 1902 A. took B. into partnership. A had the following assets :—

Leasehold Premises	..	..	..	..	£500
Stock-in-Trade	..	..	..	..	800
Book Debts	..	..	..	..	700
Cash at Bank	..	..	..	..	100
					£2,100

His liabilities (including £200 on bills payable) amounted in all to £800 ; B. brings in £1,500 in cash, and it is agreed that £500 of this shall be credited to A. as representing the price to be paid by B. for a half-share of the profits.

Open the books of the new firm by means of Journal entries, and show the Balance Sheet at the commencement of the partnership. (12 marks.)

6.—Define (a) Capital Expenditure, (b) Revenue Expenditure, (c) Fixed Assets, (d) Floating Assets. Give one typical example of each in connection with any business with which you are acquainted. (16 marks.)

7.—From the following Trial Balance, prepare Departmental Trading Accounts, general Profit and Loss Account, and Balance Sheet.

TRIAL BALANCE.

30TH SEPTEMBER 1902.

		£	s	d	£	s	d
✓ Wm. Blackley—Capital Account	..				15,000	0	0
Do. Drawings Account	..	3,000	0	0			
✓ Sundry Debtors ..	..	1,200	0	0			
✓ Sundry Creditors ..	..				3,000	0	0
✓ Business Premises ..	..	5,000	0	0			
✓ Furniture and Fittings	..	4,000	0	0			
✓ Bank ..	..				1,700	0	0
✓ Cash ..	..	300	0	0			
✓ Stock-in-Trade 31st March 1902—							
Department A ..	..	2,000	0	0			
Do. B ..	..	4,000	0	0			
Do. C ..	..	3,000	0	0			
✓ Purchases—							
Department A ..	..	5,800	0	0			
Do. B ..	..	4,000	0	0			
Do. C ..	..	5,000	0	0			
✓ Wages—							
Department A ..	..	1,000	0	0			
✓ Sales—							
Department A ..	..				8,000	0	0
Do. B ..	..				5,000	0	0
Do. C ..	..				7,000	0	0
✓ Salaries ..	..	700	0	0			
✓ Trade Expenses ..	..	300	0	0			
✓ Rent, Rates, &c. ..	..	500	0	0			
✓ Bad Debts ..	..	200	0	0			
✓ Discounts ..	..				300	0	0
		£40,000	0	0	£40,000	0	0

✓ The stock on 30th September 1902 was, Department A, £2,000; Department B, £6,000; Department C, £2,000. Provide for Depreciation of Furniture, £100; Doubtful Debts, £100; Outstanding Rent, £150. (20 marks.)

V.

(University of Birmingham—First Examination for Degree of B.Com.—June 1903.)

1. Describe shortly what you understand by double-entry bookkeeping, and state in what respects it differs from book-keeping by single entry.

2. Give an example of a Cash Book having separate columns on each side for Cash and Bank transactions, and also a discount column. Insert ten typical entries and balance the account.

3. The following balances appear *inter alia* in a Ledger on the 31st December 1902. State what you understand to be the exact meaning of each :—

- (a) Cash, Dr., £50.
- (b) Machinery, Dr., £1,000.
- (c) Wages, Dr., £5,000.
- (d) Drawings, Dr., £350.
- (e) Capital, Cr., £5,000.
- (f) Discounts, Cr., £100.
- (g) Bills payable, Cr., £1,200.

4. Record the following transactions of H. Smith in a Journal, and post the same to the proper Ledger Accounts :—

On the 1st Jan. 1903 sold to W. Jones goods value £100.

On the 12th Jan. received from Jones his acceptance at 3 months for £100.

On January 13th discounted Jones's bill with my Bankers, they charging £1 4s. for the accommodation.

5. Record the same transactions in Jones's books, in so far as they affect him, and show the entries necessary to record the payment of the bill on maturity.

6. Describe shortly what you understand by the difference between expenditure on Capital Account and expenditure on Revenue Account.

7. If a trader at the end of each year makes out a Balance Sheet showing his Liabilities and Assets and Capital, but does not make out Trading Accounts or Profit and Loss Accounts, how can he ascertain what profits he has made in a year?

8. Explain the difference between Gross Profit and Net Profit.

9. On the 15th February 1903 W. Jones forwarded to Messrs. Bright & Co. on consignment goods to the nominal value of £1,000, the cost of freight, insurance, &c., being £50. On the 15th of May he received an Account Sales showing that the goods realised £1,250, subject to the Consignees' commission of 2 per cent. thereon, and expenses properly incurred by them amounting to £20.

Show the proper entries in the books of both Consignor and Consignee.

10. Prepare a Balance Sheet, Trading Account, and Profit and Loss Account for the year 1902 from the following Trial Balance taken out at 31st December 1902:—

	Dr.	Cr.
Capital .. .		£48,000 0 0
Freehold and Leasehold Land and Buildings .. .	£18,975	0 0
Fixed Plant and Machinery .. .	20,000	0 0
Purchases .. .	15,000	0 0
Coal, Gas, and Water .. .	1,000	0 0
Wages .. .	14,000	0 0
Bad Debts .. .	85	0 0
Packing .. .	450	0 0
Rent, Rates, and Taxes .. .	300	0 0
Insurance .. .	50	0 0
Advertising .. .	500	0 0
Travelling Expenses .. .	75	0 0
Commission .. .	60	0 0

		<i>Dr.</i>	<i>Cr.</i>
Repairs and Renewals of Plant and			
Machinery ..	..	510 0 0	
Salaries ..	..	400 0 0	
Sales, Finished Goods ..	..		34,200 0 0
Do. Repairs ..	..		3,500 0 0
Sales Returns ..	..	115 0 0	
Stock at 1st January 1902 ..	..	8,000 0 0	
Cash at Bank ..	..	4,000 0 0	
Cash in hand ..	..	30 0 0	
Debtors ..	..	5,150 0 0	
Creditors ..	..		3,000 0 0
		£88,700 0 0	£88,700 0 0

In preparing the accounts the following points must be taken into consideration :—

The Stock at 31st December 1902 is £6,000—*i.e.*, £2,000 less than at the beginning of the year.

A Depreciation at the rate of 5 per cent. per annum is to be charged on the plant and machinery.

A Reserve of £150 for Bad and Doubtful Debts is to be provided.

In addition to the £14,000 a further sum of £200 is to be charged for Wages due at the 31st December 1902, but not actually paid until after that date.

VI.

(Institute of Chartered Accountants—Intermediate Paper,
June 1903.)

1. How should the following be entered in the books of a firm, who, together with a friend A., joined half each in this speculation, viz.:—Coals bought in Newcastle for £10,000 including freight and all expenses per ss. “Edward” and ss. “Albert” to Norway. The coals realised £15,000 net; this sum was invested in timber, which, in London, realised on 31st January 1903 £17,000, after paying all expenses. A. managed the whole transaction and financed it by drawing six months’ bills on the firm for £10,000, viz.: on 1st August 1902 £5,000 a/c coals per ss. “Edward,” and on 12th August 1902 £5,000 a/c coals per ss. “Albert.”

2. S. Coulson lent his brother William £1,000, at 5 per cent., to enable him to take a share in Silver & Co.’s business. He paid £500 for goodwill and £500 capital. His share of the profits and interest amounted in the first year to £1,200. He drew £1,000, out of which he spent £600 on living, and at the end of the year paid interest on the loan and repaid £250 of the principal. Write up William Coulson’s Private Ledger, and produce the “Trial Balance.”

3. A. and B. bought office property for £50,000. Each paid £10,000, and the vendor lent £30,000 on mortgage. A. and B. then each paid into their joint bank account £1,000 as working capital, and out of that paid £600 expenses of the mortgage, &c. The arrangement was that A. should collect the rents and transact all the business, he receiving two-thirds of the ultimate profit, and B. one-third. At the end of two years the property, subject to the said mortgage, was sold for £32,000, viz., as to £20,600 in cash and £11,400 in fully-paid shares of the purchasing company. During the two years the rents and profits were exactly sufficient to meet the mortgage interest and all expenses except the above £600. A. and B. had not drawn anything.

State how the proceeds of the sale and the bank balance should be apportioned between A. and B.

4. Draft the Journal entries for the following :—

Smith and Jones converted their business into Smith, Jones & Co., Lim., with nominal capital £100,000, viz., 100,000 ordinary shares of £1 each: 99,000 were credited with 18s. per share paid up (2s. per share to be paid in three months), and 1,000 fully-paid, allotted to S. (who was to be Secretary), to be paid to Smith and Jones out of his salary.

The assets were put at £100,000, viz., property and goodwill, £90,000; stock and book debts, £6,000; and cash, £4,000. The liabilities were £9,900. Smith and Jones were to have an equal number of shares each. Smith's three sons, D., T., and H., were to get an equal number of shares each, the total thereof being equal to one-half of their father's shares. Jones's two sons, John and James, were also to have shares equal to one-half their father's, but John was to have twice as many as James.

5. For purposes of preparing a statement of affairs as on 25th March 1903, how would you deal with the following account in the bankrupt's Ledger?

Dr.	T. DICK.	Cr.
	<i>£ s d</i>	
1902		
April 1 Cash	19 3 4	1903
," 4 Income Tax, one year	5 16 8	March 25 Quarter's Rent .. 25 0 0
June 30 Cash	25 0 0	June 24 Quarter's Rent .. 25 0 0
Oct. 1 "	25 0 0	
1903		
Jan. 1 "	25 0 0	

6. If you, as a bookkeeper, were posting the following account or taking out the Ledger balances at 31st March 1903, what enquiries would you make or what books would you refer to?

Dr.

H. SMITH.

Cr.

			£	s	d				£	s	d
1902						1902					
Jan. 1	Balance	..	20	0	0	Mar. 20	Cash	..	14	0	0
Feb. 28	Goods	..	10	0	0	Discount	..	..	6	0	0
Mar. 31	"	..	5	0	0	Cash	..	..	10	0	0
April 30	"	..	7	0	0				5	0	0
May 31	"	..	8	0	0				7	0	0
June 30	"	..	4	0	0				8	0	0
July 31	"	..	9	0	0				4	0	0
Aug. 31	"	..	6	0	0				6	0	0
Sept. 30 *	"	..	7	0	0				7	0	0
Nov. 30	"	..	8	0	0				7	0	0
Dec. 31	"	..	7	0	0				8	0	0
1903						1903					
Jan. 31	"	..	6	0	0	Jan. 10	"	..	7	0	0
Feb. 28	"	..	12	0	0	Feb. 10	"	..	6	0	0
			<u>£109</u>	<u>0</u>	<u>0</u>				<u>£95</u>	<u>0</u>	<u>0</u>

7. On 1st July 1902, Graham, the manager of three Tea Estates, X, Y, Z, in Ceylon, drew a bill at three months for £1,000 on the London Tea Company, Lim., and Graham sold the bill, with the shipping documents attached to it, to a bank in Ceylon. The Tea realised net £1,200 in London on 30th September 1902.

What entries should the London Tea Company have made in its books on accepting the bill, and what further entries should have been made on 30th September 1902?

8. In a Shipping Company the stock of stores left over from voyage 12 of ss. "Alexandra," was valued at £125. Describe the entries you would make in the books of the company.

9. If you, being bookkeeper, suspect that the cashier is dishonest, what steps would you take to protect yourself against blame for negligence?

10. Frequently so-called Balance Sheets are exhibited, particularly by charitable societies, whereas really they are only Cash Accounts. What further is necessary to make them complete Balance Sheets, showing the true financial position?

XIII.—ACCOUNTS OF MANUFACTURERS.

THE distinguishing feature of manufacturers' accounts is that the goods sold are of a different kind to those purchased; that is to say, *labour* is put into the goods purchased before they are again sold. It is, therefore, no longer possible to trace the purchases into the stock, and thence outwards through the Sales Book; and consequently the check upon the sales and purchases described in a previous chapter (*vide* pages 115-118) is not applicable. If, therefore, the utmost possible benefit is to be derived from the science of bookkeeping, it becomes necessary to adapt the system of accounts to the altered condition of affairs.

As a matter of fact many manufacturers are also traders—*i.e.*, they manufacture for stock, and make their sales from stock. The accounts of such persons will therefore combine the distinctive features of both manufacturers' and traders' accounts. As manufacturers, they purchase raw materials, which they make up and sell to themselves; as traders, they buy from themselves and sell to their various customers.

It is proposed, in this and the following chapters, to direct the reader's attention to the accounts of a "pure" manufacturer, *i.e.*, one whose work consists solely of the execution of contracts; and, with this end in view, the accounts of a builder have been selected for detailed consideration.

Two reasons have suggested this selection :—

- (1) The author knows of no published work that has considered these accounts in detail upon a scientific basis.
- (2) The accounts of "mixed" manufacturers have already received very able treatment at the hands of other writers—notably, Mr. G. P. NORTON, F.C.A., in his very excellent work upon "TEXTILE MANUFACTURERS' BOOKKEEPING."

Moreover, it is not anticipated that the student who has intelligently followed the earlier portion of the present work will experience any practical difficulty in combining the accounts of manufacturers and traders, where necessary.

The three most important accounts that are distinctive of manufacturers' books are :—

- (1) Wages Accounts.
- (2) Stores Accounts.
- (3) Cost Accounts.

The two former are really subdivisions of the last.

WAGES ACCOUNTS.—These comprise the record of time spent by the various workers upon each contract, together with the time occupied in the immediate supervision of such workers. Each contract is under the immediate charge of a foreman, who keeps a record of the time spent by each workman thereon. In many cases a small jobbing trade will also be carried on, in addition to the contract work ; and it is not unusual to group all such work together, under the head of “jobbing,” in charge of a yard foreman.

Two ends have to be served by the Wages Accounts : they serve as a voucher for the amount of wages paid, and as a record of the amount of labour expended upon each contract. The latter may be more suitably discussed under the heading “Cost Accounts,” and attention may therefore be confined for the present to the question of the payment of wages.

Each foreman will be provided with a sufficient sum of money from which to make disbursements from day to day—as, for instance, when a workman is paid off before the end of the week, or when an advance (commonly known as a “sub.”) is made to the workman on account of the wages due to him. Each week the foreman sends into the office a pay-sheet, in a form somewhat similar to the following :—

CONTRACT No.....

PAY-SHEET for the Week ending.....190

Contract at.....

Wages :	E	S	M.	Tu	W	T	Total	Total	At	Total	Total	Less	To pay
										£ s d	£ s d	£ s d	£ s d
(Masons) ..													
(Bricklayers) ..													
(Plasterers) ..													
(Joiners) ..													
(Labourers) ..													
(Foreman) ..							£	£		£	£	£	£

Attached to this sheet is a Summary as follows :—

CONTRACT No.....

SUMMARY OF PAY-SHEET

for the Week ending.....190..

Contract at.....

Masons	£	s	d	£	s	d
Bricklayers						
Plasterers						
Joiners						
Labourers						
Foreman						
 Expenses, viz. :												
Materials						
Carriage						
Sundries						

These summaries, when received at the office, are collected into the "Wages Book," which is in the following form :—

ABSTRACT OF WAGES.

For the Week ending..... 190..

For the total of the right-hand column in this book a cheque is drawn and cashed, and the amount of each foreman's summary forwarded to him; this amount will, of course, enable him to pay his week's wages and restore his petty cash balance to its former amount. If the contract is in another town it is usually convenient to remit a separate cheque, but this is merely a matter of detail. The amount of the weekly cheque, or cheques, is posted to the debit of "Wages Account" in the General Ledger—the detailed analysis being required only for the purposes of the Cost Accounts.

STORES ACCOUNTS.—Certain kinds of goods are usually kept in stock, instead of being purchased specially for each contract, and for this reason it is necessary that Stores Accounts should be kept, recording the goods issued from store for each contract.

Stores Accounts vary very much in general design. Some aim at keeping a complete record of the stores received and issued under each separate head, so that the books actually show from time to time the quantity in stock of each different article. In the case of a large and really important undertaking, this system is imperative, but with relatively small concerns it is both unnecessary and impracticable.

In such cases it will suffice if stores be issued only in exchange for properly authenticated requisitions; these requisitions being afterwards priced at the cost price of the goods (without deducting *cash discounts*), and analysed, under the heads of the various contracts, upon weekly, fortnightly, or monthly sheets, similar in form to the following:—

MONTHLY ANALYSIS OF STORES ISSUED.
January 1900.

January 1900.

ACCOUNTS OF MANUFACTURERS.

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The column to the left of the money column is for the reference to the numbers of the requisitions, which latter are filed away in numerical order, and can always be readily referred to.

A Stores Ledger is unnecessary under this system. Each contract is debited in the Cost Ledger with the monthly total of stores issued, while the grand total of the monthly analysis is passed through the General Journal to the debit of "Stores Issued Account" and the credit of "Stores Account"; as the latter account is debited with all stores purchased, through the Purchases Book, it follows that the debit balance of the "Stores Account" in the General Ledger should represent the actual amount of stores in stock. If at any time there is a serious deficiency it may be desirable to compare the merchants' invoices with the requisition notes, and ascertain where the discrepancy occurs; but, with proper management, such cases would be very rare. For all ordinary purposes the above system will, therefore, be found both convenient and sufficient.

Cost Accounts.—It is not desirable to give more than a general description of these accounts at the present time.

The principle of the Cost Ledger is as follows: all the items of income and expenditure (*i.e.*, the Nominal Accounts) are analysed under the headings of the various contracts from

which they result; the account of each contract thus shows the profit or loss in which it has resulted, and a tabular summary of these accounts shows (horizontally) the profit or loss upon each contract, and also (vertically) the total income and expenditure under each head, agreeing with the Profit and Loss Account in the General Ledger (*vide* pp. 234-5).

The following is a specimen page in the Cost Ledger, showing a convenient ruling for that book :—

CONTRACT No. 462.

WAREHOUSE AT WEST BUCKNELL

Dr.

Quarter ending

STREET. TENDER No. 926.

ARCHWAY, Architect.

31st December 1908.

Cr

Dr.

SUMMARY.

Gr.

	£	s	d		£	s	d
From Folio .. .				From Folio .. .			
Wages	2,500	0	0	Contract Price .. .			
Materials	10,000	0	0	Stores Returned .. .			
Plant	500	0	0	Plant Returned .. .			
Stores	1,450	0	0	To Folio 168 .. .			
Petty Cash	50	0	0	Loss .. .			
Establishment	500	0	0				
To Folio				Total .. .			
Profit					£15,000	0	0
Total							
	£15,000	0	0				

XIV.—TRANSACTIONS OF A MANUFACTURING COMPANY.

SHARE AND DEBENTURE LEDGERS, ETC.

THIS is not the proper place to enter into any lengthy explanation concerning the constitution of joint-stock companies ; but it is perhaps desirable to briefly review some of their distinguishing features, so far as may be necessary for the purpose of explaining the accounts of these undertakings.

It will be remembered that, in the case of a single individual, the amount of his capital embarked upon the venture is credited to his Capital Account, and the profits made by him are also credited to his Capital Account (as increasing the value of his interest in the undertaking, while they remain undrawn) ; and that losses and withdrawals of capital are debited to that account—thereby reducing the amount of capital remaining in the undertaking.

In the case of private firms a similar course is adopted—a separate account being kept for each partner, so that the amount of each partner's capital may at any time be readily perceived.

In the case of a joint-stock company, the following conditions obtain :—

- (1) When the company is registered the amount of its capital (called " Nominal Capital ") is fixed ; and, except under special circumstances, remains unalterable.
- (2) The amount of the nominal capital is divided into a certain number of " shares " of definite value. These shares may be of different classes (*e.g.*, preference shares, ordinary shares, deferred shares), and it is not necessary that the shares belonging to different classes should be of the same face value.
- (3) Shares are " allotted " by the directors to such persons as may desire to become shareholders, in response to applications received from such persons. The shares so allotted constitute the " Capital Issued," or " Capital Subscribed."
- (4) Subject to the regulations of the company, the directors may call up upon the shares issued, or upon any class of shares issued, any sum not exceeding the nominal value of such shares. The total amount so called up constitutes the " Paid-up Capital."

(5) Shareholders whose "calls" are not paid up are liable (subject to the regulations of the company) to have their shares forfeited by the directors. Forfeited shares may be re-issued to other persons upon such terms as the directors may impose.

(6) No return of capital can be made upon shares, except under special circumstances (*see "Reduction of Capital"*).

(7) It is competent for directors—upon the execution of a contract in the required form, which must be filed with the Registrar of Joint Stock Companies—to accept payment for certain specified shares in kind, instead of in cash; but shares may not be issued at a discount.

(8) Out of the profits made from time to time, the company in general meeting may declare dividends among the shareholders: shares of a like class being entitled to participate equally, different classes of shares being entitled to participate in accordance with the terms upon which such classes of shares were issued. Directors may, in their discretion, declare "interim" dividends on account of current profits.

(9) Shareholders cannot be called upon to pay up their share of any loss that may be made; except indirectly, by calling up any unpaid amount upon their shares, or by withholding dividends out of subsequent profits until such loss shall have been worked off.

- (10) A company may not purchase its own shares.
- (11) Subject to the regulations of the company, shareholders may sell their shares—or any portion thereof—to any person, whether a shareholder or not, upon such terms as they may think proper. Some restriction upon transfers is invariably provided in the case of "private" companies.

These few brief notes will, it is thought, suffice to enable the reader to formulate the necessary accounts for the books of a joint-stock company.

In the first place, it is usual to keep the shareholders' accounts in a separate Ledger (this, indeed, is required by statute), and to keep merely the corresponding Adjustment Accounts in the General Ledger. It is convenient to open a separate Adjustment Account for each class of shares.

By way of exemplifying the best method of dealing with Share Accounts, we will suppose that "Bricks & Company, Lim.," has been registered for the purpose of acquiring the business of Messrs. Bricks & Mortar, builders and contractors, for the sum of £100,000 payable half in cash and half in fully-paid shares [*vide* paragraph (7), page 202, *ante*] ; that the nominal capital of the company is £100,000 in 500 6 per cent. cumulative preference shares of £100 each, and a like number of ordinary shares of equal value ; 200 preference

shares and 300 ordinary shares are to be allotted to the vendors, as fully paid-up: the directors invite applications for the remaining 300 preference shares and 200 ordinary shares, accompanied by a deposit of £10 per share; £15 per share to be payable on allotment, £25 per share on the first of the following month, and the remaining £50 per share a month later.

These applications come in in due course, and are entered in the "Applications and Allotments Book"—the ordinary and preference shares being kept separate. It is convenient to reproduce this book, *pro forma*, at the present stage; but the student will understand that—by the time the subscription list closes—only the first seven columns will be filled in.

APPLICATIONS AND ALLOTMENTS BOOK.

(ORDINARY SHARES)

(PREFERENCE SHARES.)

A separate Cash Book, called the "Capital Subscribed Book," is employed to record the sums received from, and returned to, applicants for shares, and shareholders; and from this book the "Deposit of £10 per share" has been posted. Only the daily totals of the Capital Subscribed Book are entered in the "General Cash Book." If, however, the number of applications is small, the deposits, &c., may be entered in the General Cash Book in an inner column and the daily totals extended.

The directors then proceed to allot shares. There being more shares applied for than were offered for subscription, they make a selection of the applications, allotting some in full, some in part, and declining others altogether. Upon reference to the "Shares allotted" column it will be seen that the applications of John Able, James Cloud, and Jacob Keen are declined and the deposits returned, while a reduced number of shares is allotted to Thomas Bowen, William Deeds, Robert Eccles, and Arthur Frank, the shares applied for by Henry Green, John Hughes, and Frederick Jones being allotted in full.

The allotment being settled, distinctive numbers are assigned to the shares held by each shareholder, as shown in the column provided for that purpose.

The next thing to be done is to forward "Letters of Allotment" to each shareholder, intimating that so many shares have been allotted to him and that so much is due thereon.

These letters make the allotment binding and bear a sixpenny stamp if they represent shares of a face value of £5 or upwards, and a penny stamp if below that amount. "Letters of Regret" are sent to those whose applications have been declined, enclosing cheques for the amounts of their respective deposits. In practice it is usual to provide a column in the Applications and Allotments Book for the serial numbers of both Allotment Letters and Letters of Regret.

It will be noted that, where a lesser number of shares have been allotted than were applied for, the excess paid upon application is not repaid to the applicant, but applied in reduction of the amount due upon allotment.

As the amounts due upon allotment and in payment of calls are received, they are entered in the Capital Subscribed Book, and thence posted to the Applications and Allotments Book, as shown in the above example.

In these *pro forma* accounts, the whole amount of shares is called up within two months of the date of allotment; and, in such a case, it is convenient to deal with the calls through the Applications and Allotments Book, as here shown, transferring the various accounts to the Share Ledger, after the shares have been fully paid up. The folio upon the extreme right in the above example records this transfer, the "Total amount paid up" in the previous column being the cross-total of the sixth, thirteenth, eighteenth, and twenty-first columns.

If it had been decided not to call up the whole amount of the capital subscribed for, the amounts transferred from the Applications and Allotments Book to the Share Ledger would, of course, have been the actual amounts called up, whatever they were; the amounts received in payment of any subsequent call being posted to the Share Ledger instead of to the Applications and Allotments Book.

It may be remarked, at this stage of the proceedings, that the allotment of fully paid shares to the vendors would also be recorded in the Applications and Allotments Book, but it is convenient to record the allotments of fully paid up shares to vendors and their nominees upon a separate page from the general applications.

The totals of the "Total paid up" columns are posted to an Adjustment Account (or to two Adjustment Accounts—one for ordinary and one for preference shares) in the Share Ledger, completing the double-entry of that Ledger and forming a connecting link with the General Ledger.

The following example shows the account of Robert Bricks upon folio 8 of the Share Ledger. It will be seen that he is credited with 150 fully paid up ordinary shares (posted from folio 2 in the Applications and Allotments Book), and with 100 fully paid preference shares (posted from folio 3 in the same book). He is likewise debited with 20 and 50 ordinary shares which he has disposed of, the entry being posted from folio 1 in the "Register of Transfers," also shown below :—

ROBERT BRICKS, 1 Box STREET, LONDON, E., Contractor.
ORDINARY SHARES.

8

PREFERENCE SHARES.

1909	Jan.	1	3	801	900	100	£	10,000
------	------	---	---	-----	-----	-----	---	--------

REGISTER OF TRANSFERS (ORDINARY SHARES).

Date when Transfer lodged	No. of Transfer Deed	No. of Certificates transferred	Transferee's Name	Shares transferred	No. of Shares	Distinctive Numbers	Total Amount paid up	To Transferee	To Transferee for Balance for Transfer	Nos. of Certificates	Consideration	Transfer passed	No. of Minute	Register Fe.	Transferee's	
															Name	Address	Occupation
1909	Jan. 30	1 8	R. Bricks ..	20	201	220	2,000	10	11	2,010	Feb. 5	42	John Abel..	12 Green Street	E.C.	Merchant
	" 2	" "	Do. ..	50	221	270	5,000	12	"	5,025	"	"	Jas. Cloud..	36 Black Street	E.C.	Civil Servant

New accounts have therefore to be opened in the Share Ledger for John Able and for James Cloud; and, upon reference to the *pro forma* Register of Transfers, it will be seen that 20 shares have been posted to Able's credit on folio 10 in the Ledger, and 50 shares to Cloud's credit upon folio 11.

Transfers of preference shares are best recorded in a separate register, but sometimes the same register is used and an additional column inserted before the "No. of shares transferred," in which the class of shares is noted.

DEBENTURES.—Suppose that Messrs. Bricks & Co., Lim., have invited applications for 100 debentures of £500 each. For an exact definition of the word "debenture" the student is referred to a legal text-book, but it will suffice for our present purpose if he regards debenture-holders as a sort of preferential creditor, to whom bonds are issued in much the same way as shares are issued to shareholders.

For the sake of variety, it is assumed that no deposit is asked upon applications for debentures, but that the whole amount is payable upon allotment. The Applications and Allotments Book then assumes the following more simple form:—

APPLICATIONS AND ALLOTMENTS BOOK (DEBENTURES).

No. of Application	Name	Address	Occupation	No. of Debentures applied for	No. of Allotment Note	No. of Debentures allotted	From	To	Cash Received	Due on Allotment	£ Deben-ture Ledger folio
1	John Abel ..	12 Green St., E.C. ..	Merchant ..	20	1	1	20	1	10,000	10,000	2
2	Robert Bricks ..	1 Box St., E. ..	Contractor ..	25	2	2	21	40	10,000	10,000	2
3	William Deeds ..	48 Red St., S.W. ..	Banker ..	20	3	20	41	60	10,000	10,000	3
4	Jacob Keen ..	20 Low St., W. ..	Gentleman ..	20	4	4	61	80	10,000	10,000	4
5	James Mortar ..	1 Box St., E. ..	Contractor ..	25	5	5	81	100	10,000	10,000	5
6	Isaac Nathan ..	12 Water St., E.C. ..	Financier ..	20	—	—	—	—	—	—	—
										100	130
										£50,000	£50,000

The forms of the Debenture Ledger and the Register of Transfers of Debentures do not materially differ from the forms shown above for the use of shares.

Sometimes redeemable debentures are issued—*i.e.*, debentures due for repayment at the end of a certain specified time, or upon a specified notice. A convenient way to deal with these redemptions is through a Register of Redemptions, somewhat similar to the Register of Transfers, through which the debenture-holder's account is debited, and the Adjustment Account credited.

Debentures may be issued at a discount, or at a premium. In either case the nominal amount of such debentures is the amount recorded in the Debenture Ledger; the General Ledger entries are made as shown on pages 216, 222, and 265.

XV.—TRANSACTIONS OF A MANUFACTURING COMPANY (*continued*).

GENERAL AND TRADE LEDGERS.

To turn to the trade books. Let it be supposed that the company takes over the land, buildings, plant, machinery, stock, book debts, and contracts in progress, of the vendors ; paying therefor the sum of £100,000 : viz., £50,000 in cash, £20,000 in preference shares, and £30,000 in ordinary shares. The assets taken over are valued as follows :—

Freehold and leasehold lands and buildings	£20,000
Plant and machinery	... ... ... 15,000
Stores on hand	... ... ... 10,000
Book Debts	... ... ... 5,000
Contracts in progress	... ... ... 25,000
The amount paid for goodwill is thus	... 25,000
	<hr/>
	£100,000
	<hr/>

The whole of the share capital (£100,000, in 500 six per cent. preference shares of £100 each, and 500 ordinary shares

of £100 each) has been allotted, and the whole amount called up in accordance with the terms of the prospectus. The student is invited to compare these transactions with the following Journal entries, which are designed to complete the opening of the General Ledger :—

	(1)	Dr.	Cr.
JOURNAL 1909			
I JANUARY.			
Shareholders' Account			
To Preference Shares Capital Account .. .	3	12,500 0 0	
" Ordinary " " "	1	.. ..
" " "	2	.. ..
Being the amount due upon the allotment of 300 Preference Shares and 200 Ordinary Shares @ £25 per share, allotted at Board Meeting held this day.			7,500 0 0 5,000 0 0
Bricks & Mortar .. .	4	50,000 0 0	
To Preference Shares Capital Account .. .	1	.. ..	20,000 0 0
" Ordinary " " "	2	.. ..	30,000 0 0
Being an allotment of 200 fully-paid Preference Shares and 300 fully-paid Ordinary Shares, allotted to vendors in part payment of pur- chase-money in accordance with agreement dated 1st December last, and allotted at Board Meeting held this day.			
Freehold and Leasehold Lands and Buildings	7	20,000 0 0	
Plant and Machinery .. .	8	15,000 0 0	
Stores .. .	9	10,000 0 0	
Contract Ledger (book debts) .. .	10	5,000 0 0	
Sundry Debtors for contracts in progress .. .	11	25,000 0 0	
Goodwill .. .	12	25,000 0 0	
To Bricks & Mortar .. .	4	.. ..	100,000 0 0
For sundry assets purchased by company in accordance with agreement dated 1st December last, adopted by the Board at their meeting this day.			
Carried forward .. .	2	162,500 0 0	162,500 0 0

JOURNAL 1909			(2)
	Dr.	Cr.	
Brought forward	1 162,500 o o		162,500 o o
Debenture-holders' Account	5 50,000 o o		
To Debentures Account	6		50,000 o o
Being 100 four per cent. debentures of £500 each issued at Board Meeting held this day, and payable in full on 16th January next.			
 1 FEBRUARY.			
Shareholders' Account	3 12,500 o o		
To Preference Shares Capital Account	1		7,500 o o
" Ordinary " " "	2		5,000 o o
Being a first call of £25 per share made on 1st January last, and due this day.			
 1 MARCH.			
Shareholders' Account	3 25,000 o o		
To Preference Shares Capital Account	1		15,000 o o
" Ordinary " " "	2		10,000 o o
Being a second and final call of £50 per share made on 1st February last, and due this day.			
Carried forward	3 250,000 o o		250,000 o o

There is nothing in these various entries that calls for any detailed comment; the "Shareholders' Account" is debited with the amount from time to time called up upon shares (*i.e.*, the amount due from shareholders), and the same account is credited with the cash received from shareholders. The daily totals only of the "Capital Subscribed Book" being entered in the General Cash Book, this does not involve a very large amount of detailed posting in the General Ledger. The Preference and Ordinary Share Capital Accounts and

the Debentures Account are the Adjustment Accounts in connection with the Share and Debenture Ledgers.

The following may be taken as a copy of the General Cash Book for the quarter ending the 31st March 1909 :—

(1)

	Dr.	CASH.		CONTRA.	Cr.
1909		£ s d	1909		£ s d
Jan. 1	To Shareholders' A/c.	3 5,600 0 0	Jan. 2	By Shareholders' A/c.	3 400 0 0
7	" Ditto ..	3 3,000 0 0	"	Office Cash ..	13 150 0 0
9	" Ditto ..	3 4,300 0 0	7	" Wages ..	16 3,000 0 0
16	" Debenture-holders' Account ..	5 40,000 0 0	14	" Ditto ..	16 2,700 0 0
17	" Ditto ..	10 10,000 0 0	18	" Bricks & Mortar..	4 50,000 0 0
31	" Contract Ledger Account ..	10 15,000 0 0	21	" Wages ..	16 2,500 0 0
"	" Shareholders' A/c.	3 8,000 0 0	28	" Ditto ..	16 3,200 0 0
		£85,900 0 0	31	" Bought Ledger Account ..	14 4,800 0 0
			"	" General Expenses ..	15 450 0 0
			"	" Balance down ..	2 18,700 0 0
					£85,900 0 0
Feb. 1	To Balance down ..	1 18,700 0 0	Feb. 1	By Deposit at Bank ..	17 12,500 0 0
"	" Shareholders' A/c.	3 4,500 0 0	4	" Wages ..	16 3,000 0 0
28	" Contract Ledger Account ..	10 12,500 0 0	11	" Ditto ..	16 2,500 0 0
"	" Shareholders' A/c.	3 20,000 0 0	18	" Ditto ..	16 2,400 0 0
		£55,700 0 0	25	" Ditto ..	16 2,100 0 0
			28	" Bought Ledger Account ..	14 8,500 0 0
			"	" General Expenses ..	15 500 0 0
			"	" Balance down ..	3 24,200 0 0
					£55,700 0 0
Mar. 1	To Balance down ..	2 24,200 0 0	Mar. 1	By Deposit at Bank ..	17 20,000 0 0
"	" Shareholders' A/c.	3 5,000 0 0	4	" Wages ..	16 2,000 0 0
31	" Contract Ledger Account ..	10 15,800 0 0	11	" Ditto ..	16 1,800 0 0
		£45,000 0 0	18	" Ditto ..	16 2,100 0 0
			25	" Ditto ..	16 2,300 0 0
			31	" Bought Ledger Account ..	14 7,750 0 0
			"	" General Expenses ..	15 550 0 0
			"	" Balance down ..	4 8,500 0 0
					£45,000 0 0
April 1	To Balance down ..	3 8,500 0 0			

The General Journal may be written up either monthly or quarterly ; it is compiled from the various subsidiary books, viz. :—

- Contract Journal.
- Analysis of Purchases.
- Analysis of Plant Issued.
- Analysis of Plant Returned.
- Analysis of Stores Issued.
- Analysis of Stores Returned.
- Petty Cash Book.
- Bought Ledger Cash Book.

Let it be supposed that the following Journal entries correctly recapitulate the transactions recorded in these books during the quarter ended the 31st March 1909 :—

JOURNAL 1909.	Dr.	Cr.	(3)
Brought forward ..	2	<i>£ s d</i>	<i>£ s d</i>
		250,000 0 0	250,000 0 0
31 MARCH			
Contract Ledger Account	10	60,000 0 0	
To Contracts Account	18	..	60,000 0
Being the agreed price of contracts completed during the current quarter, as per Contract Journal.			
Contracts Account	18	25,000 0 0	
To Sundry Debtors for Contracts Out- standing	11	..	25,000 0 0
Writing back the amount held in suspense on 1 January last.			
Sundry Debtors for Contracts Outstanding ..	11	36,000 0 0	
To Contracts Account	18	..	36,000 0 0
Being the amount now estimated to be earned upon works in progress.			
Carried forward ..	4	371,000 0 0	371,000 0 0

(4)

JOURNAL 1909.

Dr.

Cr.

			£	s	d	£	s	d
Brought forward	3		371,000	0	0	371,000	0	0
Wages Account	16		1,750	0	0			
To Sundry Creditors	19		..			1,750	0	0
For current week's wages not yet paid.								
Stores	9		9,000	0	0			
Plant	8		250	0	0			
Rent, Rates, &c.	20		500	0	0			
General Expenses	15		750	0	0			
Materials	21		23,500	0	0			
To Bought Ledger Account	14		..			34,000	0	0
As per analysis of purchases for the quarter.								
Plant Issued Account	22		5,000	0	0			
To Plant Account	8		..			5,000	0	0
As per analysis of plant issued for the quarter.								
Plant Issued Account	22		5,000	0	0			
To Plant Account	8		..			5,000	0	0
Being the value of plant standing at various contracts on 1 January last.								
Stores Issued Account	23		5,000	0	0			
To Stores Account	9		..			5,000	0	0
Being the value of stores standing at various contracts on 1 January last.								
Plant Account	8		4,000	0	0			
To Plant Issued Account	22		..			4,000	0	0
As per analysis of plant returned for the quarter.								
Stores Issued Account	23		3,000	0	0			
Ditto			2,000	0	0			
Ditto			3,000	0	0			
To Stores Account	9		..			8,000	0	0
As per analysis of stores issued for the three months.								
Carried forward	5		433,750	0	0	433,750	0	0

JOURNAL 1909.	<i>Dr.</i>	<i>Cr.</i>	(5)					
			<i>f</i>	<i>s</i>	<i>d</i>	<i>f</i>	<i>s</i>	<i>d</i>
Brought forward	4		433.750	0	0	433.750	0	0
Stores Account	9		500	0	0			
To Stores Issued Account	23		..			500	0	0
As per analysis of stores returned for the quarter.								
Petty Cash Account	24		100	0	0			
To Office Cash Account	13		..			100	0	0
For sundry expenses, as per analysis of Petty Cash Book.								
Bought Ledger Account	14		500	0	0			
To Discount Account	25		..			500	0	0
As per Bought Ledger Payments Book.								
Debenture Interest	26		500	0	0			
To Sundry Creditors	19		..			500	0	0
Being Interest due to date.								
Total			<u>£435.350</u>	<u>0</u>	<u>0</u>	<u>£435.350</u>	<u>0</u>	<u>0</u>

It now remains to post the General Ledger from the above-shown General Journal and General Cash Book, and to extract the Trial Balance. This will be found fully dealt with in the following pages; the closing of the Ledger is, however, postponed for further consideration at a later period.

The GENERAL LEDGER of Messrs. BRICKS & Co., LIMITED.

I

I

Dr. PREFERENCE SHARES CAPITAL ACCOUNT. Cr.

			1909	By Shareholders	J. I	£	s	d
			Jan. 1			7,500	0	0
			"	" Bricks and Mortar.	"	20,000	0	0
			Feb. 1	" Shareholders	2	7,500	0	0
			Mar. 1	" Shareholders	"	15,000	0	0

2

2

Dr. ORDINARY SHARES CAPITAL ACCOUNT. Cr.

			1909	By Shareholders	J. I	£	s	d
			Jan. 1			5,000	0	0
			"	" Bricks and Mortar	"	30,000	0	0
			Feb. 1	" Shareholders	2	5,000	0	0
			Mar. 1	" Shareholders	"	10,000	0	0

3

3

Dr. SHAREHOLDERS' ACCOUNT. Cr.

1909	To Sundries ..	J. I	£	s	d	1909	By Cash ..	I	£	s	d
Jan. 1	To Sundries ..	J. I	12,500	0	0	Jan. 1	By Cash ..	I	5,000	0	0
2	" Cash ..	"	400	0	0	7	" Do... ..	"	3,000	0	0
Feb. 1	" Sundries ..	2	12,500	0	0	9	" Do... ..	"	4,300	0	0
Mar. 1	" Do. ..	"	25,000	0	0	31	" Do... ..	"	8,000	0	0
						Feb. 1	" Do... ..	"	4,500	0	0
						28	" Do... ..	"	20,000	0	0
						Mar. 1	" Do... ..	"	5,000	0	0

4 Dr. BRICKS & MORTAR (VENDORS' ACCOUNT). Cr. 4

1909 Jan. 1	To Shares allotted	J. 1	£ s d	1909 Jan. 1	By Sundries (being purchase price of undertaking) ..	J. 1	£ s d
18	" Cash ..	"	50,000 0 0				100,000 0 0

5 Dr. DEBENTURE-HOLDERS' ACCOUNT. Cr. 5

1909 Jan. 1	To Sundries ..	J. 2	£ s d	1909 Jan. 16	By Cash ..	J. 1	£ s d
			50,000 0 0	17	" Do. ..	"	40,000 0 0

6 Dr. DEBENTURES ACCOUNT. Cr. 6

				1909 Jan. 1	By Debenture-holders ..	J. 2	£ s d
							50,000 0 0

7 Dr. LAND AND BUILDINGS ACCOUNT. Cr. 7

1909 Jan. 1	To Bricks and Mortar	J. 1	£ s d				
			20,000 0 0				

8 Dr. PLANT AND MACHINERY ACCOUNT. Cr. 8

1909 Jan. 1	To Bricks and Mortar	J. 1	£ s d	1909 Mar. 31	By Plant issued	J. 4	£ s d
Mar. 31	" Sundries ..	4	15,000 0 0	"	" Do.	"	5,000 0 0
	" Plant issued	"	250 0 0				5,000 0 0
		"	4,000 0 0				

⁹ Dr. STORES ACCOUNT. ⁹ Cr.

			£ s d				£ s d
1909		To Bricks and Mortar	J. 1	10,000 0 0	1909	By Stores issued	J. 4
Jan. 1				"	Mar. 31	Do.	
Mar. 31	"	Sundries ..	4	9,000 0 0	"		
"	"	Stores ..	5	500 0 0			

¹⁰ Dr. CONTRACT LEDGER ACCOUNT. ¹⁰ Cr.

			£ s d				£ s d
1909		To Bricks and Mortar	J. 1	5,000 0 0	1909	By Cash	..
Jan. 1				"	Jan. 31	Do.	15,000 0 0
Mar. 31	"	Contracts ..	3	60,000 0 0	Feb. 28	" Do.	12,500 0 0
				"	Mar. 31	" Do.	15,800 0 0

¹¹ Dr. SUNDRY DEBTORS FOR CONTRACTS IN PROGRESS. ¹¹ Cr.

			£ s d				£ s d
1909		To Bricks and Mortar	J. 1	25,000 0 0	1909	By Contracts ..	J. 3
Jan. 1				"	Mar. 31		25,000 0 0
Mar. 31	"	Contracts ..	3	36,000 0 0			

¹² Dr. GOODWILL ACCOUNT. ¹² Cr.

			£ s d				
1909		To Bricks and Mortar	J. 1	25,000 0 0			

¹³ Dr. OFFICE CASH ACCOUNT. ¹³ Cr.

			£ s d				£ s d
1909		To Cash ..	I	150 0 0	1909	By Petty Cash ..	J. 5
Jan. 2				"	Mar. 31		100 0 0

14 Dr. BOUGHT LEDGER ACCOUNT. Cr. 14

1909	To Cash	I	£ s d	1909	By Sundries	J. 4	£ s d
Jan. 31			4,800 0 0	Mar. 31			
Feb. 28	" Do.	"	8,500 0 0				
Mar. 31	" Do.	"	7,750 0 0				
"	Discount	J. 5	500 0 0				

15 Dr. GENERAL EXPENSES ACCOUNT. Cr. 15

1909	To Cash	I	£ s d				
Jan. 31			450 0 0				
Feb. 28	" Do.	"	500 0 0				
Mar. 31	" Do.	"	550 0 0				
"	Bought Ledger A/c	J. 4	750 0 0				

16 Dr. WAGES ACCOUNT. Cr. 16

1909	To Cash	I	£ s d				
Jan. 7			3,000 0 0				
14	" Do.	"	2,700 0 0				
21	" Do.	"	2,500 0 0				
28	" Do.	"	3,200 0 0				
Feb. 4	" Do.	"	3,000 0 0				
11	" Do.	"	2,500 0 0				
18	" Do.	"	2,400 0 0				
25	" Do.	"	2,100 0 0				
Mar. 4	" Do.	"	2,000 0 0				
11	" Do.	"	1,800 0 0				
18	" Do.	"	2,100 0 0				
25	" Do.	"	2,300 0 0				
31	Sundry Creditors	J. 4	1,750 0 0				

17 Dr. DEPOSIT AT BANK. Cr. 17

1909	To Cash	I	£ s d				
Feb. 1			12,500 0 0				
Mar. 1	" Do.	"	20,000 0 0				

18

Dr.

CONTRACTS ACCOUNT.

18

Cr.

1909 Mar. 31	To Sundries ..	J. 3	£ s d	1909 Mar. 31	By Sundries ..	J. 3	£ s d
		"	25,000 0 0	"	Do.	"	60,000 0 0

19

Dr.

SUNDRY CREDITORS.

19

Cr.

				1909 Mar. 31	By Wages ..	J. 4	£ s d
				"	Deb. Interest	J. 5	1,750 0 0

20

Dr.

RENT, RATES, &c., ACCOUNT.

20

Cr.

1909 Mar. 31	To Sundries ..	J. 4	£ s d				
		"	500 0 0				

21

Dr.

MATERIALS ACCOUNT.

21

Cr.

1909 Mar. 31	To Sundries ..	J. 4	£ s d				
		"	23,500 0 0				

22

Dr.

PLANT ISSUED ACCOUNT.

22

Cr.

1909 Mar. 31	To Sundries ..	J. 4	£ s d	1909 Mar. 31	By Sundries ..	J. 4	£ s d
" " Do. ..		"	5,000 0 0			"	4,000 0 0

23

Dr.

STORES ISSUED ACCOUNT.

23

Cr.

1909 Jan. 31	To Sundries ..	J. 4	£ s d	1909 Mar. 31	By Sundries ..	J. 5	£ s d
Feb. 28 " Do. ..		"	3,000 0 0			"	500 0 0
Mar. 31 " Do. ..		"	2,000 0 0			"	0 0 0
" " Do. ..		"	3,000 0 0			"	0 0 0
" " Do. ..		"	5,000 0 0			"	0 0 0

24

Dr.

PETTY CASH ACCOUNT.

24

Cr.

1909	To Office Cash	J.5	£	s	d				
Mar. 31			100	0	0				

25

Dr.

DISCOUNT ACCOUNT.

25

Cr.

			1909	By Sundries	J.5	£	s	d
			Mar. 31			500	0	0

26

Dr.

DEBENTURE INTEREST.

26

Cr.

1909	To Sundry Creditors	J.5	£	s	d				
Mar. 31			500	0	0				

TRIAL BALANCE, 31ST MARCH 1909.

	Dr. £ s d	Cr. £ s d	Dr. £ s d	Cr £ s d
1 Preference Shares ..	..	50,000 0 0	..	50,000 0 0
2 Ordinary Shares ..	..	50,000 0 0	..	50,000 0 0
3 Shareholders ..	50,400 0 0	50,400 0 0		
4 Bricks and Mortar ..	100,000 0 0	100,000 0 0		
5 Debenture-holders ..	50,000 0 0	50,000 0 0		
6 Debentures ..	..	50,000 0 0	..	50,000 0 0
7 Land and Buildings ..	20,000 0 0	..	20,000 0 0	
8 Plant and Machinery ..	19,250 0 0	10,000 0 0	9,250 0 0	
9 Stores ..	19,500 0 0	13,000 0 0	6,500 0 0	
10 Contract Ledger ..	65,000 0 0	43,300 0 0	21,700 0 0	
11 Sundry Debtors ..	61,000 0 0	25,000 0 0	36,000 0 0	
12 Goodwill ..	25,000 0 0	..	25,000 0 0	
13 Office Cash ..	150 0 0	100 0 0	50 0 0	
14 Bought Ledger ..	21,550 0 0	34,000 0 0	..	12,450 0 0
15 General Expenses ..	2,250 0 0	..	2,250 0 0	
16 Wages ..	31,350 0 0	..	31,350 0 0	
17 Deposit at Bank ..	32,500 0 0	..	32,500 0 0	
18 Contracts ..	25,000 0 0	96,000 0 0	..	71,000 0 0
19 Sundry Creditors ..	..	2,250 0 0	..	2,250 0 0
20 Rent, Rates, &c. ..	500 0 0	..	500 0 0	
21 Materials ..	23,500 0 0	..	23,500 0 0	
22 Plant Issued ..	10,000 0 0	4,000 0 0	6,000 0 0	
23 Stores Issued ..	13,000 0 0	500 0 0	12,500 0 0	
24 Petty Cash ..	100 0 0	..	100 0 0	
25 Discount ..	..	500 0 0	..	500 0 0
26 Debenture Interest ..	500 0 0	..	500 0 0	
4 Cash at Bank ..	8,500 0 0	..	8,500 0 0	
	£579,050 0 0	£579,050 0 0	£236,200 0 0	£236,200 0 0

TRADE LEDGERS, ETC.

It is now time to consider the Contract and Bought Ledgers, and the various books subsidiary thereto.

Taking first the CONTRACT LEDGER (which is equivalent to the Sold Ledger of an ordinary trading concern), the Ledger itself is of the usual type, embracing the Personal Accounts of the customers, (perhaps) the Bills Receivable Account, and the General Ledger Adjustment Account. The postings are made—

- (1) From the Contract Journal—a simple form of Day Book, in which the amount chargeable for each contract is entered upon the completion thereof—to the debit of the various customers' accounts, the quarterly total being credited to the Adjustment Account.
- (2) From the Contract Cash Book (*vide* top of page 166, *ante*)—a simple form of one-sided Cash Book (or, more properly, "Journal") in which is entered every amount received from customers, either directly or as the proceeds of Bills Receivable. The details of this book (which, if necessary, is provided with a column for discounts) are credited to the various accounts in the Contract Ledger, and the monthly totals debited to the Adjustment Account. The total of the cash column is included upon the debit side of the General

Cash Book (*vide* page 217, *ante*), and the total of the discount column (if any) forms the subject of an entry in the General Journal.

(3) From the Bills Receivable Book, with the manipulation of which the reader has already been made familiar.

It is very usual for payments to be made by the customer during the progress of a contract. Inasmuch as the customer is not debited with the amount of his contract until its completion, it necessarily follows that *credit* balances in the Contract Ledger will be frequent; these credit balances act as a set-off against the debit balances, and reduce the balance shown upon the Contract Ledger Account in the General Ledger.

The amount accruing due upon contracts in progress is computed from the Cost Ledger, and will occupy attention in the following chapter.

Where there is a jobbing trade done, it is convenient to have a "Jobbing Ledger" subsidiary to the Contract Ledger—the latter containing the aggregate of the jobbing transactions in an Adjustment Account. It will usually be found that the tabular form of Ledger makes the most convenient Jobbing Ledger: the following ruling will be found very suitable:—

A separate page is devoted to each creditor; and, as the book is provided with an index, every facility is afforded for ready reference.

Once a month, or once a quarter, the book is added and the totals transferred to the "Analysis of Purchases, &c., Book," of which the following is a specimen:—

ANALYSIS OF PURCHASES, ETC.

FOR THE QUARTER ENDED 31ST MARCH 1909.

Name	B.J. Fo.	B.I. Fo.	Total	Stores	Plant	Rent Rates, &c.	Other Expenses	Special Materials	Contract No.	C. L. Fo.
Abel & Sons ..	1	27	£ 2,160 0 0	2,000 0 0	£ ..	£ ..	£ ..	£ 160 0 0	470	170
Thomas Bowen ..	2	41	1,500 0 0	250 0 0	250 0 0	..	..	1,000 0 0	"	"
Henry Green &c. &c.	10	82	340 0 0	..	..	..	..	340 0 0	471	171
	500		£34,000 0 0	£9,000 0 0	£250 0 0	£500 0 0	£750 0 0	£23,500 0 0		

The last column in the analysis is for goods that are ordered for special contracts, and which therefore do not come into the Stores Account: these are posted to the various contracts in the Cost Ledger, as will be shown later on. So far as the Bought Ledger is concerned the items in the "Total" column are credited to the various personal accounts, and the total of that column (the £34,000) is posted to the debit of the

Adjustment Account upon folio 500 of the Bought Ledger. It will be noticed that the totals of the various columns correspond with the entry in the General Journal shown upon page 219.

The remaining subsidiary books in connection with the Bought Ledger are the "Bought Ledger Cash Book" and the "Bills Payable Book"; these books correspond to the Contract Cash Book and Bills Receivable Book of the Contract Ledger series, and thus call for no further description.

XVI.—TRANSACTIONS OF A MANUFACTURING COMPANY (*continued*).

COST ACCOUNTS—CLOSING THE BOOKS.

NEXT come the Cost Ledger and its various subsidiary books. These subsidiary books are:—

- (1) Abstract of Wages, a specimen of which was given upon page 193.
- (2) Analysis of Purchases, a specimen of which was given upon page 230, and of which the column headed "Special materials" is posted to the debit of the various contracts in the Cost Ledger.
- (3) Analysis of Stores Issued, a specimen of which was given upon page 195.
- (3A) Analysis of Stores Returned—a similar book recording the return of all surplus stores and materials into stock.
- (4) Analysis of Plant issued—a similar book recording the issue of plant (e.g., scaffolding, &c.) for the general stock.
- (4A) Analysis of Plant Returned—a similar book recording the return of plant into stock. The returns are priced at a lesser amount than when issued, thus making depreciation fall upon the various contracts.

Sales of stores or plant will rarely occur; but, when they do, they may be posted from the General Cash Book to the credit of Stores (or Plant) Issued Account, and also to the credit of the Contract in the Cost Ledger.

(5) Analysis of Petty Cash—a Tabular Petty Cash Book, by means of which each contract is debited with all special expenses incurred at the office and works. (It will be remembered that all petty expenses incurred at the site of the contracts are included in the wages.)

(6) Contract Journal, which, in addition to being posted to the Contract Ledger, is posted in detail to the credit of the various contracts in the Cost Ledger.

The double-entry check of the Cost Ledger is obtained by opening a "Contracts Account," to which all totals are posted. On account of the special ruling of the Cost Ledger, it is convenient to depart from the usual practice in connection with Adjustment Accounts, and to post these totals upon the *same* side of the Ledger as the items have been posted. The aggregate of the balances upon the various contracts thus agrees with the balance of the Contracts Account, and falls upon the same side of the Ledger. The totals of the various columns of the Contracts Account also agree with the corresponding totals of the periodical "Summary of Cost Ledger," thus localising any error that may occur.

The following example is supposed to represent the "Summary of Cost Ledger," in Messrs. Bricks & Co.'s (Lim.) books for the quarter ended 31st March 1909:—

Dr.

SUMMARY OF COST LEDGER FOR THE

Contract No.	Fo.	Total to Debit from last A/c	Wages		Materials	Plant	Stores	Petty Cash	Establish- ment Expenses	Total to Credit carried forward
			100's of days	Amount						
462	168	£15,000	150	£4,000	£500	£..	£1,000	£..	£300	£..
469	169	20,000	200	5,000	2,000	350	750	..	400	..
470	170	..	225	8,500	10,000	3,000	2,750	25	450	..
471	171	..	300	6,850	2,000	750	500	50	600	..
472	172	..	250	7,500	9,000	900	3,000	25	500	..
		£35,000	..	£31,850	£23,500	£5,000	£8,000	£100	£2,250	..
Sundries ..				£25,000						
Stores ..				5,000						
Plant ..				5,000						
				£35,000						

QUARTER ENDING 31ST MARCH 1909.

Cr.

Net Profit	Total	Total to Credit from last A/c	Contract Price	Stores returned	Plant returned	Total to Debit carried forward	Loss	Total
£ 800	£ 21,600	£ ..	£ 20,000	£ 100	£ 1,500	£ ..	£ ..	£ 21,600
..	28,500	..	25,000	400	1,800	..	1,300	28,500
..	24,725	..	..	..	..	24,725	..	24,725
4,950	15,700	..	15,000	..	700	..	..	15,700
..	20,925	..	..	..	..	20,925	..	20,925
£ 5,750	£ 111,450	..	£ 60,000	£ 500	£ 4,000	£ 45,650	£ 1,300	£ 111,450
Net profit for the quarter ..							4,450	
							£ 5,750	

Sundries ..	£ 36,000
Stores	5,750
Plant	<u>3,900</u>
	£ 45,650

It will thus be seen that the quarter's working has resulted in a net profit of £4,450, allocated as follows :—

Profit on Contract No. 462	£800
" " No. 471	4,950
	£5,750
<i>Less Loss on Contract No. 469</i>	<i>1,300</i>
	£4,450

It will also be noted that Contracts Nos. 470 and 472 are carried forward at cost only, no profit being reckoned upon them while in progress. This is the safest course to pursue, but it is not always acted upon in practice. On the other hand, if a loss is anticipated upon any uncompleted contract, it should always be provided for.

It remains to be added that folios 170 and 172 in the Cost Ledger (relating to the two uncompleted contracts) are now closed, the "Total to debit" being carried forward to the fresh accounts about to be opened for the following quarter.

The two columns "Total to credit" will be found useful when some of the stores or plant upon a contract are sold or returned, the contract remaining uncompleted at the end of the quarter. The totals to debit and credit will then both be carried forward to the next quarter's account, instead of a balance being struck.

Before leaving this question, it would be well to explain the manner of arriving at the constitution of the item "Total to Debit, £45,650." The amount in question represents the

expenditure to date upon the two uncompleted contracts Nos. 470 and 472 : a portion of this relates to stores and plant issued, and as this portion has to be shown as a balance upon the " Stores Issued " and " Plant Issued " Accounts in the General Ledger, the total expenditure is analysed as shown. The item " Sundries, £36,000 " will be found in the General Ledger debited to " Sundry Debtors " and credited to " Contracts " (*vide* pages 218 and 223, *ante*).

The apportionment of the establishment expenses is a question upon which some variety obtains in practice. The following methods are in use :—

- (1) A proportion varying according to the cost incurred on account of the contract.
- (2) A proportion varying according to the amount of wages paid on the contract.
- (3) A proportion varying according to the amount of time spent on the contract.

If the object be to apportion to each contract its fair share of the cost of rents, supervision, office expenses, &c., it is obvious that the first method is untenable, for a contract necessitating expensive materials does not, therefore, involve a larger degree of supervision.

For a like reason the second method is also inaccurate—although less so than the former—as it cannot be seriously argued that a contract employing masons necessarily involves heavier establishment expenses than one employing bricklayers.

The third method, taking the time occupied as the basis of the calculation, appears to be the fairest, and to involve but little extra trouble, and it has accordingly been adopted here; but it is only fair to add that the second method is in more general use.

CLOSING THE LEDGERS.

The Closing of the Cost Ledger has already been described, and the closing of the Contract and Bought Ledgers presents no new features; it is, therefore, proposed to pass on at once to the closing of the General Ledger. The following are the Journal entries required for this purpose:—

JOURNAL 1909.					(8)
			Dr.	Cr.	
	Brought forward	5	£ 435.350	8 0	£ 435.350
	-31 March		s d	s d	s d
Trading Account	27	63,800	0 0		
To Wages	16	..		34,350	0 0
" Materials	21	..		23,500	0 0
" Stores Issued	23	..		6,750	0 0
" Plant Issued	22	..		2,100	0 0
" Petty Cash	24	..		100	0 0
Contracts	18	71,000	0 0		
To Trading Account	26	..		71,000	0 0
Trading Account	27	7,200	0 0		
Discount	25	500	0 0		
To Profit and Loss Account	28	..		7,700	0 0
Profit and Loss Account	28	3,250	0 0		
To General Expenses	15	..		2,250	0 0
" Rent, Rates, &c...	20	..		500	0 0
" Debenture Interest	26	..		500	0 0
Profit and Loss Account	28	4,450	0 0		
To Profit and Loss Apportionment Ac- count	29	..		4,450	0 0
		£ 585,550	0 0		£ 585,550

There are but few features in these closing entries that call for comment: the balance of net profit for the quarter (£4,450), is, it will be seen, transferred to the credit of a "Profit and Loss Apportionment Account" instead of being added to the capital, as would have been done in the case of a private undertaking.

It may be added here that, for the sake of reducing the number of Ledger Accounts as far as possible (and so simplifying the example), the amount due for interest on debentures and directors' fees has been included under the heading of General Expenses. For a like reason the interest earned upon the deposit at the bank has been disregarded.

From the above Journal entries the student will be able to close the General Ledger of Messrs. Bricks & Co., Limited, without difficulty ; but the following accounts are appended as specimens of form, and should be carefully studied. The figures in italics refer to the folios of the different Ledger Accounts, and are added only for the convenience of the reader.

BRICKS & COMPANY,
STATEMENT OF
TRADING ACCOUNT.

Dr.

		£ s d	£ s d
16	To Wages	31,350 0 0	
21 & 23	" Materials and Stores	30,250 0 0	
22	" Depreciation of Plant	2,100 0 0	
24	" Sundry Expenses	100 0 0	
27	" Balance carried to Profit and Loss Account .....	..	63,800 0 0
			7,200 0 0
			<u>£71,000 0 0</u>

Dr.

PROFIT AND LOSS ACCOUNT.

		£ s d	£ s d
20	To Rent, Rates, &c.	500 0 0	
15	" General Expenses, Salaries, &c.	2,000 0 0	
26	" Directors' Fees †	250 0 0	
	" Interest on Debentures	500 0 0	
29	" Balance (being net Profit for the Quarter) carried to Profit and Loss Apportionment Account .....	..	3,250 0 0
			4,450 0 0
			<u>£7,700 0 0</u>

Proposed Apportionment of Profit* :—

Preference Shares, Dividend at 6%	..	750 0 0
Ordinary Shares Do. 10% (free of income-tax)	..	1,250 0 0
Reserve Fund .....	..	1,500 0 0
Carried forward to next Account .....	..	950 0 0

£4,450 0 0

BALANCE SHEET.

	<i>Liabilities.</i>	£ s d	£ s d
	Nominal Capital	100,000 0 0	
	Capital Subscribed :—		
1	500 6% Preference Shares of £100 each, fully paid	50,000 0 6	
2	500 Ordinary Shares of £100 each, fully paid	50,000 0 0	
6	Debentures (100 of £500 each at 4%)	50,000 0 0	100,000 0 0
19	Interest on ditto	500 0 0	
14	Trade Creditors .....	..	50,500 0 0
19	Sundry Creditors .....	..	12,450 0 0
29	Profit and Loss Account—Balance to credit, as above .....	..	1,750 0 0
			4,450 0 0
			<u>£169,150 0 0</u>

* It need perhaps hardly be stated that the payment of *quarterly* dividends, and the † This item has been treated as passed through the Bought Ledger, in order to this would not be done.

LIMITED,

ACCOUNTS.

for the Quarter ended 31st March 1909.

Cr.

		£ s d
18	By Contracts	71,000 0 0
		<u>£71,000 0 0</u>

for the Quarter ended 31st March 1909.

Cr.

		£ s d
26	By Gross Profit as per Trading Account ..	7,200 0 0
25	" Discounts	500 0 0
		<u>£7,700 0 0</u>

31st March 1909.

	Assets.	£ s d	£ s d
7	Freehold and Leasehold Land and Buildings at cost ..	..	20,000 0 0
8 & 22	Plant and Machinery (<i>less</i> Depreciation) ..	..	13,150 0 0
9 & 23	Stores .. . . .	..	12,250 0 0
12	Goodwill at cost ..	..	25,000 0 0
10 & 11	Trade Debtors .. . .	..	57,700 0 0
17	Cash :—viz., Deposit at Bank ..	32,500 0 0	
24	Current Account at Bank ..	8,500 0 0	
13	Cash in hand ..	50 0 0	
		<u>41,050 0 0</u>	
		<u>£169,150 0 0</u>	

preparation of quarterly accounts are both quite unusual in practice.
reduce the number of accounts in the General Ledger. In actual practice, however,

The above is in the form in which the company's accounts would be submitted to the shareholders, but it may be added that it is not usual to publish the Trading Account.

DIVIDENDS.

Should the proposed apportionment of profit be approved by the shareholders, necessary entries in the books have next to be considered.

The dividend is dealt with by passing a Journal entry, debiting Profit and Loss Apportionment Account, and crediting a new account called "Dividend Account," with £2,000. The ordinary dividend (being "free of income tax") is payable in full, but income tax at the current rate must be deducted from all dividends paid to preference shareholders. A Journal entry will be passed, debiting Dividend Account, and crediting "Income Tax Account" with £37 10s., being 1s. in the £ upon £750. A cheque will now be drawn for £1,962 10s., and posted to the debit of the Dividend Account, which will now balance; this cheque is paid into a separate banking account (Bricks & Co., Lim., Dividends Account), a list is made of the balances of the Share Ledger on 31st March, the dividend computed, and a cheque drawn upon the Dividend Account for the amount due to each shareholder. When all the dividends are paid there will remain no balance in the bank upon this account; meanwhile the balance shown by the Pass Book represents the amount of unpaid dividends. A similar plan is adopted with regard to the payment of

debenture interest, but in this case the cheque for £475 (viz., £500 less income-tax) is debited to folio 19 in the General Ledger, and a Journal entry is passed, debiting folio 19, and crediting Income Tax Account, with £25, being the amount of tax upon the debenture interest.

The Reserve Fund is dealt with by means of a Journal entry, debiting Profit and Loss Apportionment Account, and crediting a new Ledger Account called "Reserve Fund."

The above entries having been posted, the balance remaining to the credit of Profit and Loss Apportionment Account will be £950, as shown above; this balance is carried forward to the next account, when it is increased by the net profit made during the subsequent period.

It is hardly necessary to add that it is most unusual for companies to divide their profits quarterly, but this consideration does not affect any of the principles or methods just described.

Where the number of shareholders is very small it is undesirable to open a separate banking account for dividend purposes; in such a case it will be found more convenient to draw the cheques for dividends upon the General Banking Account, and to post these separate cheques to the debit of Profit and Loss Apportionment Account, or to the debit of a "Dividend Account"—having first debited Profit and Loss Apportionment Account, and credited Dividend Account, with the total amount of the dividend by means of a Journal entry.

XVII.—FORMS OF ACCOUNTS AND ACCOUNT BOOKS.

THE DOUBLE-ACCOUNT SYSTEM.

UP to the present only what is known as the "Single-Account System" has been described, under which system all the assets and liabilities are focussed in a single account, or Balance Sheet. There yet remains to be considered the "Double-Account System."

This latter system is of comparatively modern origin—its first statutory recognition, apparently, being in 1868, when the "Regulation of Railways Act" was passed, prescribing a form of accounts designed upon the principle of the "Double-Account."

The principle of the Double-Account System is that the capital of a company is contributed by the shareholders for the definite purpose of constructing or acquiring certain works, which—when constructed or acquired, as the case may be—are to be employed for the purpose of earning an income for such shareholders. The form of account employed

is calculated to show exactly (1) what capital has been raised, (2) how much of such capital has been spent in constructing or acquiring the undertaking, and (3) what amount of capital remains over for the purpose of carrying on the undertaking, and so earning income. In accounts kept upon this system, the amount of *Expenditure* (*i.e.*, the cost price of assets) is the amount always stated; the undertaking has to be kept in a state of working efficiency out of revenue, but all fluctuations of value are disregarded.

As a matter of practice, it is not unusual to find, in accounts kept upon the Single-Account System, that assets are stated in the Balance Sheet at cost price, irrespective of their actual market value. This is, however, technically incorrect (where not actually misleading); for it is the distinctive feature of the Single-Account Balance Sheet that all assets and liabilities should be so stated that the actual financial position may be made apparent.

The most convenient method of disclosing the actual difference between the two systems is to show the same financial position, first in the form of a Single-Account, and then as a Double-Account. For this purpose the accounts of a mining company are selected, this especial class of accounts being chosen because they are, as a matter of fact, sometimes drawn upon the Single-Account System, and sometimes upon the Double.

SINGLE-ACCOUNT
THE A. B. COLLIERY
BALANCE SHEET,

	LIABILITIES.	<i>£ s d</i>
Nominal Capital	<i>£200,000 0 0</i>	
Capital Subscribed :		
A shares ($\text{£}10$ each, $\text{£}5$ per share called up) .. .	$\text{£}50,000 0 0$	
B shares ($\text{£}10$ each, fully paid) .. .	$100,000 0 0$	
	<hr/>	
Debentures (at 5 per cent.)	$150,000 0 0$	
Reserve Fund	$50,000 0 0$	
Trade Creditors :		
Bills Payable	$20,000 0 0$	
Open Accounts	$10,000 0 0$	
	<hr/>	
Profit and Loss Account	$20,000 0 0$	
	<hr/>	
	$\text{£}250,000 0 0$	

SYSTEM.

COMPANY, LIMITED.

30th June 1908.

	ASSETS..	<i>£ s d</i>
Lease of Mines, Plant, Machinery, &c. (as per last Account)	£150,000 0 0	
Extensions to date	20,000 0 0	
	<hr/>	
	170,000 0 0	
<i>Less Depreciation</i>	<hr/> 12,000 0 0	
	<hr/>	
Stock on hand	158,000 0 0	
Consols (at cost)	10,000 0 0	
Trade Debtors	20,000 0 0	
Cash at Bank and in hand	30,000 0 0	
	<hr/>	
	32,000 0 0	
	<hr/>	
	£250,000 0 0	

Recast, upon the Double-Account System, this Balance

DOUBLE-

THE A. B. COLLIERY

Dr.

CAPITAL ACCOUNT for the year

	Expenditure to 30th June 1907	Expended this year	Total to 30th June 1908
			£ s d
To Lands acquired	5,000 0 0	..	5,000 0 0
Sinking Shafts and opening up Pits	100,000 0 0	12,500 0 0	112,500 0 0
Plant and Machinery above sur- face	25,000 0 0	4,500 0 0	29,500 0 0
Wagons	10,000 0 0	2,500 0 0	12,500 0 0
Office Buildings	2,500 0 0	..	2,500 0 0
Workmen's Cottages	7,500 0 0	500 0 0	8,000 0 0
Balance of Capital Account	150,000 0 0	20,000 0 0	170,000 0 0
			30,000 0 0
			<u>£200,000 0 0</u>

GENERAL BALANCE SHEET,

	LIABILITIES.	£ s d
Capital Account—Balance to Credit
Reserve Fund	30,000 0 0
Depreciation Fund	20,000 0 0
Trade Creditors:—		12,000 0 0
Bills Payable	£5,000 0 0
Open Accounts	5,000 0 0
Profit and Loss Account	<u>10,000 0 0</u> <u>20,000 0 0</u>
		<u>£92,000 0 0</u>

Sheet appears as follows:—

ACCOUNT SYSTEM.

COMPANY, LIMITED.

ended 30th June 1908.

	Certified Receipts to June 30 1908	Received during year	Total Receipts to June 30 1908
	£ s d	£ s d	£ s d
By A. Shares	50,000 0 0	.. .. ..	50,000 0 0
" B. Shares	50,000 0 0	50,000 0 0	100,000 0 0
" Debentures	50,000 0 0	.. .. ..	50,000 0 0
	150,000 0 0	50,000 0 0	200,000 0 0
			*
			£200,000 0 0

30th June 1908.

	ASSETS.	£ s d
Stock on Hand	10,000 0 0
Consols	20,000 0 0
Trade Debtors	30,000 0 0
Cash at Bank and in Hand	32,000 0 0
		£92,000 0 0

The above example has been purposely kept as simple as possible; but it will suffice to explain the essential difference between the two systems. The essential features of the Double-Account System are:—

- (1) Receipts are divided into two classes—Capital and Revenue; all amounts received from shareholders and debenture-holders are regarded as “capital receipts,” and are credited to Capital Account.
- (2) Expenditure is divided into two classes—Capital and Revenue; all amounts expended in constructing, extending, or acquiring the undertaking from which the revenue is earned are regarded as “capital expenditure,” and are debited to Capital Account. Expenditure upon repairs, renewals, &c., and all other current expenses, are regarded as “revenue expenditure,” and debited to Revenue Account.
- (3) No deduction is ever made from the amount to debit of Capital Account; but, if necessary, a “Depreciation Fund” is raised by debiting Revenue and crediting “Depreciation Fund Account”—the latter appearing as a liability in the General Balance Sheet. It is a very usual thing to hold special investments for the amount of the Depreciation Fund.

It is, perhaps, desirable to add that, in the foregoing example, it is supposed that the £12,000 written off for depreciation on the 30th June 1908 is the *first* amount so

written off. In all cases under the Double-Account System the total to the debit of Capital Account will be the total amount of capital expenditure since the commencement, and the amount to the credit of Depreciation Fund Account will similarly be the total amount of depreciation written off since the start.

The Double-Account System is compulsory in the case of such Railway Companies and Tramway Companies as are governed by the Regulation of Railways Act, 1868; and also in the case of all Gas Companies incorporated by special Act of Parliament adopting the Gas Works Clauses Act, 1871. It is especially applicable to all such companies as invest the greater part of their capital in what may be styled "permanent assets"—*i.e.*, land, buildings, machinery, &c., which are held as a means of earning income, and not for purposes of re-sale.

The Double-Account System thus appears to be the best system to adopt for

- Railway Companies,
- Tramway Companies,
- Canal Companies,
- Shipping Companies,
- Gas Companies,
- Water Companies,
- Electric Light and Power Companies,

Telegraph Companies,
Telephone Companies,
Property Companies (*i.e.*, companies holding lands or buildings for letting purposes, but not for sale),
Mining Companies, and
Quarrying Companies;

it is, however, less suitable for Investment Trust Companies, as these companies do not, as a rule, hold their investments permanently.

It is now proposed to give a few forms of ruling for special books that will be found convenient under certain conditions.

LEDGERS.

Form of ruling for the DEPOSITORS' LEDGER of a BUILDING SOCIETY, or in any similar case where it is desirable to readily perceive the balance from day to day.

<i>Dr.</i>				<i>Cr.</i>
Deposits withdrawn	Interest withdrawn	Date	Fo.	Deposits paid in
£ s d	£ s d	1908		£ s d
50 0 0	..	January 1	165	100 0 0
		March 3	78	..
		June 30	J.72	1 0 0

It will be seen that, in this form of Ledger, each transaction occupies an entire line—the transactions, whether to credit or to debit, being in strictly chronological order.

Form of double-column Bought or Sold LEDGER; useful when the accounts are settled at uncertain dates:—

Form of TABULATED LEDGER suitable for a Gas Company:—

Progressive No.	No. of House	Name of Ratepayer	QUARTER ending 31st March 1909.												Remarks									
			Arrears		Meter Index	Con- sump- tion	Amount due at per 1,000	Meter Rents	Cash Received	F.O.	Date Received	Amount Allowed				Allow- ance Book								
			£	s	d	£	s	d	£	s	d	£	s	d	£	s	d	£	s	d	£	s	d	
		Hig h Street																						
1	Jones, J. ..	6,153	7,216	106.3	13 5	3	0 10 0	13 15	3	29	May 12													
2	Smith, T. ..	8,126	9,620	149.0	18 12	6	0 10 0	10 12	6	20	April 30	19	2	6	B.D. 62									

Similar columns for the June, September, and December Quarters.

Where the number of accounts is considerable, and the number of transactions upon each account few, but regular, the Tabulated Ledger is very convenient on account of the ease with which it may be balanced. Water rates, municipal rates, telephone subscriptions, rent accounts, hotel accounts, etc., may be advantageously kept upon this system.

The following forms of "BILL LEDGERS" will be found very convenient where the transactions in bills are very numerous :—

BILLS RECEIVABLE LEDGER.

Dr.

BILLS PAYABLE LEDGER.

Dr.

Where the Bill Ledger is employed, the Ledger Accounts for "Bills Receivable" and "Bills Payable" become unnecessary. It may be added that the total of the "Discount" columns in the Bill Ledgers is posted to the Discount Account each month; dishonoured bills are dealt with through the Cash Book or Journal.

JOURNALS.

The following is a favourite form of Journal among American bookkeepers:—

<i>Dr.</i>	JOURNAL.				<i>Cr.</i>	
Goods	Sundries	Fo.	Particulars	Fo.	Goods	Sundries
£ s d	£ s d				£ s d	£ s d

Where the transactions are not very numerous this seems a very convenient form to adopt, as, of course, it saves the double posting of all sales and purchases; but one might as well go a step further while about it, and add a "Cash" column upon each side—making the Journal (as in days of yore) the sole book of first entry. Even this is sometimes done, however, especially in the case of solicitors' accounts.

The following form of ACCOUNTS RENDERED Book for an ACCOUNTANT has proved most convenient:—

BOOKKEEPING.

ACCOUNTS RENDERED DURING THE QUARTER ENDING 31ST MARCH 1909.

A word of explanation is advisable here: each client is debited in the Clients' Ledger with the amount of his account; the total "Disbursements" is credited to "Disbursements Ledger Adjustment Account," and the total "Charges" is credited to "Private Ledger Adjustment Account"—this completes the double entry of the Clients' Ledger. In the Disbursements Ledger the details of the "Disbursements" column are posted to the credit of the various clients' accounts, and the total of that column is debited to "Clients' Ledger Adjustment Account." The detailed amounts in the "Time Occupied" columns are credited to the various clients' accounts in the Time Ledger (closing these accounts), and the total time occupied is debited to the "Outstanding Charges" Account in the Time Ledger. The balance of this latter account thus always shows the amount of time spent upon matters for which no account has yet been rendered.

CASH BOOKS.

The following form of CASH Book does away with the necessity for either Bill Books or Bill Ledgers; it is, however, deficient in detail, which doubtless accounts for its not being more generally used:—

A good form of PETTY CASH Book will always be found of the greatest value; the following specimen of ruling may prove useful in this connection—the analytical headings being, of course, varied to meet the circumstances of the particular case:—

<i>Dr.</i>	PETTY CASH for the (month) ending.....			<i>Cr.</i>
Date	Amount Received	Date	Particulars	
C.B. f.o.	f s d			
			Voucher No.	
			Amount Paid	
			Cash Purchases	
			Salaries	
			Postages	
			Office Expenses	
			Travelling Expenses	
			Advertiser's Expenses	

XVIII.—MISCELLANEOUS QUESTIONS OF ACCOUNT.

In order to keep the various examples shown in this work sufficiently simple to be readily comprehended, it has been necessary to postpone the consideration of several questions relating to accounts that are too important to be altogether neglected. It is proposed to deal with these various matters in the present chapter.

BAD DEBTS AND DOUBTFUL DEBTS.—Theoretically, the treatment of bad and doubtful debts presents no especial difficulty; the situation is that the whole (or a portion) of the debit balance shown upon a Personal Account is irrecoverable; to the extent that it is irrecoverable the balance represents a loss instead of an asset. To this extent, therefore, the balance should be the balance of a Nominal Account, not of a Personal Account. All that has to be done is to alter our books in accordance with the ascertained facts. This is done by crediting the debtor's (Personal) Account, and debiting the “Bad Debts” (Nominal) Account, with the amount of the ascertained loss.

The practical difficulty arises from the fact that it is always desirable to make provision for probable and possible losses, as well as those that are actually known. This involves the raising of a Suspense Account called "Provision for Bad Debts Account," which is credited with the estimated contingent loss, the Bad Debts Account being debited as before; in the Balance Sheet, the credit balance of the Suspense Account is deducted from the amount of the book debts, instead of being separately stated on the liabilities' side.

It is unnecessary to consider here the best mode of ascertaining the proper provision to be made against loss by bad and doubtful debts, as that is a question of auditing rather than bookkeeping, and has been fully dealt with in the present author's work upon *Auditing*.

BILLS DISCOUNTED.—The best method of dealing with bills receivable discounted varies with the practice of the bankers or brokers with whom they are negotiated. The usual practice of bankers is to give credit for the face value of the bill, and to debit the customer's account with the amount of the discount; on the other hand, some bankers deduct the discount from the face value of the bill and give credit for the net proceeds. Brokers likewise, when purchasing bills, deduct discount and pay net.

In the first case, the full value of the bill will be entered on the debit side of the Cash Book in the bank column, and

posted to the credit of Bills Receivable Account, while the amount of the discount will appear on the credit side of the Cash Book (also in the bank column) and be posted thence to the Discount Account in the Ledger.

In the last two cases the amount of cash actually received will appear in the bank column of the Cash Book on the debit side, and the amount of the discount allowed inserted in the Dr. discount column ; the figures in both columns are posted to the credit of Bills Receivable Account.

When it is the practice to negotiate bills with creditors (*i.e.*, to endorse them over to creditors in payments of amounts due), it will be found very convenient to use the form of Cash Book set forth on page 260—the credit entries being written in red ink in the “Bills Payable” column. When this plan is not followed, the only possible way is to pass Journal entries, debiting the Personal Account of the endorsee and Discount Account, and crediting Bills Receivable Account.

BILLS DISHONoured.—When the dishonoured bill has been discounted this problem presents no difficulty ; a cheque is drawn for the amount of the bill and charges and paid over to the holder (the bill being received in exchange), and the whole amount is debited to the account of the person from

whom the bill was originally received. Any further commission or interest that may be charged is debited to the customer through the Journal.

If the bill has not been discounted, the amount thereof (*plus* noting charges) is debited to the acceptor—or other party from whom it was originally received—and credited to Bills Receivable Account through the Journal.

DEBENTURES ISSUED AT A DISCOUNT.—As already stated on page 213, the Debenture Ledger deals only with the nominal value of debentures; it therefore follows that the credit balance on the Debentures Account in the General Ledger is for the nominal, or face, value of the debentures likewise. Whatever is credited to Debentures Account is also debited to Debenture-holders' Account; if, therefore, the debenture-holders have paid less than the face value for their bonds, it naturally follows that this latter account shows a debit balance equal to the amount of discount allowed up to the issue. To correct this, raise a "Cost of Issue of Debentures Account," and debit it with the amount of the discount allowed, crediting Debenture-holders' Account with a like amount—so balancing the latter account. Commission paid to underwriters, &c. (if not *ultra vires*), may also be debited to this account. The total amount debited to this account must be written off out of Revenue during the currency of the debentures, and in the meantime the balance must be treated as an asset in successive Balance Sheets.

DEBENTURES ISSUED AT A PREMIUM.—In a like manner, if the debenture-holders have paid more than the nominal value for their bonds, the Debenture-holders' Account in the General Ledger will show a credit balance. The best mode of dealing with this credit balance (which represents the premium received upon the issue) is to transfer it to the credit of Reserve Fund.

DEBENTURES REDEEMED.—In the Debenture Ledger open a "Debentures Redeemed Account," and transfer all redemptions from the holders' accounts to this account. It is convenient to set aside a few pages of the Transfer Journal for this purpose, or, if the redemptions are very numerous, a special "Redemptions Journal" may be preferred. In the financial books post the cash paid upon redemption to the debit of a "Debentures Redeemed Account," and transfer the balance of this account periodically to the debit of Debentures Account, thereby gradually reducing the credit balance of the latter.

If the debentures have been originally issued at a discount, it is necessary every time a portion of the issue is redeemed to write off a proportionate part of the Cost of Issue of Debentures Account. This is done by crediting the latter account and debiting Profit and Loss Account.

DEPRECIATION.—Depreciation may be provided for in various ways, of which the more usual are—

- (1) As a fixed proportion of the original value of the property. ("Fixed Instalment" method.)
- (2) As a fixed percentage upon the diminishing value of the property. ("Reducing Instalment" method.)
- (3) As a fixed proportion upon the original value, less interest at a fixed rate upon the diminishing value of the property. ("Annuity" method.)
- (4) By setting aside, and specially investing, a fixed proportion of the original value of the property. ("Sinking Fund" method.)

If it be desired to reduce £200 to £100 in ten years, the annual instalments would be as follows:—

Time	1st Method £ s d	2nd Method £ s d	3rd Method £ s d	4th Method £ s d
End of 1st year	.. 10 0 0	.. 13 8 6	.. 7 19 0	.. 7 19 0
" 2nd "	.. 10 0 0	.. 12 10 4	.. 8 7 0	.. 7 19 0
" 3rd "	.. 10 0 0	.. 11 13 5	.. 8 15 4	.. 7 19 0
" 4th "	.. 10 0 0	.. 10 17 8	.. 9 3 11	.. 7 19 0
" 5th "	.. 10 0 0	.. 10 2 11	.. 9 13 4	.. 7 19 0
" 6th "	.. 10 0 0	.. 9 9 3	.. 10 2 11	.. 7 19 0
" 7th "	.. 10 0 0	.. 8 16 6	.. 10 13 1	.. 7 19 0
" 8th "	.. 10 0 0	.. 8 4 8	.. 11 3 9	.. 7 19 0
" 9th "	.. 10 0 0	.. 7 13 6	.. 11 14 11	.. 7 19 0
" 10th "	.. 10 0 0	.. 7 3 3	.. 12 6 9	.. 7 19 0
	<hr/> <hr/> £100 0 0	<hr/> <hr/> £100 0 0	<hr/> <hr/> £100 0 0	<hr/> <hr/> £79 10 0

It will perhaps be as well to pause a moment, and consider the practical effect of the various methods ; but, before doing so, it seems desirable to call attention to the fact that the differences would have appeared greater had instalments for a longer period been compared, or had interest been reckoned at a higher rate (5 per cent. is the rate employed in the above tables).

The first three methods, it will be seen, all require the same amount to be debited to Profit and Loss Account in the course of the ten years ; but while the fixed instalment principle spreads the loss equally over that period, the diminishing instalments principle throws the bulk of the loss upon the first few years, and the annuity principle upon the last few years. On the other hand, the Sinking Fund principle possesses the advantage of economy—although it must be added that this advantage is more apparent than real, inasmuch as the instalments—being specially invested—are not helping to earn profits, as is the case under the other systems. Still, there is much to be said in favour of the system that provides a tangible fund, available for renewals, &c.

Reverting to the first three methods, the annuity system is undoubtedly the scientifically correct one, and should always be employed for long leases, &c. ; but, inasmuch as it tends to swell the profits of the first years at the expense of later years, it is preferable to use one of the instalment principles

for plant, machinery, &c. The relative advantages of the first two methods are fully considered by the author in his work entitled *Comparative Depreciation Tables*.

Sometimes Depreciation is credited to the account of the asset concerned and sometimes to a "Reserve for Depreciation Account" (the amount to credit of the latter being deducted from the debit of the account of the asset in the Balance Sheet). Under the first and fourth methods, this latter course is clearly the most convenient.

FORFEITED SHARES.—In the Share Ledger, by means of the Transfer Journal, transfer these shares to the credit of "Forfeited Shares Account": when resold, transfer to the purchaser in the usual way. In the General Ledger debit "Share Capital Account" with amount called up, credit "Forfeited Shares Account" with the amount paid up upon forfeited shares, and credit "Shareholders' Account" with the amount in arrear.

Until the shares are re-issued the balance of Forfeited Shares Account should be stated separately upon the liabilities' side of the Balance Sheet, but when the shares have again been disposed of the balance of the Forfeited Shares Account may—if thought fit—be credited to Reserve Fund, or to Profit and Loss Account. Directors may, however, re-issue such shares at a discount not exceeding the amount originally paid up thereon; and when advantage is taken of this power,

the amount of such discount must be made good to Share Capital Account out of Forfeited Shares Account.

PARTNERSHIP LOSSES.—It would be well to show, by means of an example, how losses are to be apportioned among partners.

Suppose A., B., and C. are partners: A., with a capital of £5,000, is entitled to three-fifths of the profits; B., with £3,500 capital, is entitled to one-fifth of the profits; and C., with a capital of £1,500, is entitled to one-fifth likewise. Each partner is to be credited with 5 per cent. interest on his capital. The trading for the year ended 30th September 1908 resulted in a loss of £10,000—to which the interest on capital must be added, making the total loss of £10,500.

The situation is as follows:—

	A.	B.	C.	Total
Capital, 1st Oct. 1907	£5,000	£3,500	£1,500	£10,000
Interest thereon	250	175	75	500
	5,250	3,675	1,575	10,500
Loss for the year	6,300	2,100	2,100	10,500
Capital, 30th Sept. 1908	£1,050	£1,575	£525	Nil

If, therefore, the firm wound up (and assuming the result of such liquidation was that the assets exactly discharged the liabilities) A. would owe B. £1,050, and C. would owe B. £525.

In the absence of express agreement to the contrary, partnership losses are borne in the same proportions as partnership profits are shared, but no partner can be called upon to pay *another* partner's share of such losses if all outside creditors have been paid.

REDUCTION OF COMPANY'S CAPITAL.—In the Share Ledger the simplest and most convenient way is to procure a rubber stamp, briefly stating the effect of the reduction, and impress it upon every page. The share certificates should also be called in and similarly stamped. In the General Ledger note the reduction at the head of Share Capital Account, and if the reduction does not affect the paid-up capital, no further entry is required.

If, however, the reduction has been made for the purpose of wiping-off a balance to the debit of Apportionment of Profit Account, pass a Journal entry debiting Share Capital Account and crediting Apportionment of Profit Account with the total amount of such reduction of paid-up capital.

SHARES ISSUED AT A PREMIUM.—[See under "Debentures Issued at a Premium," on page 266, reading "Shareholders' Account" for "Debenture-holders' Account."]

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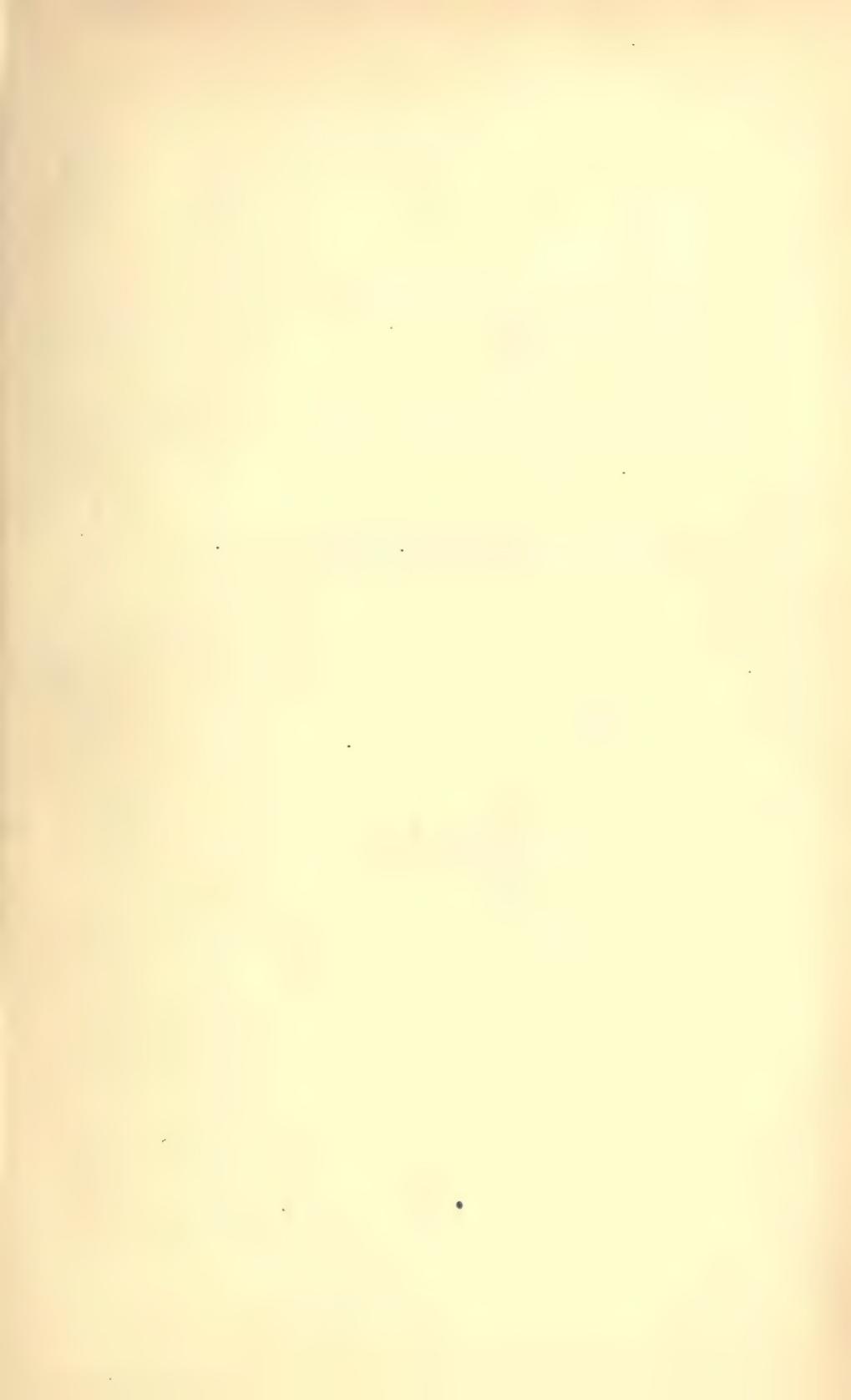
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